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Economic situation and outlook for Latin America and the Caribbean for the period 2017–2018

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith an overview report on the economic situation and outlook for Latin America and the Caribbean for the period 2017–2018.

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Economic situation and outlook for Latin America and the Caribbean for the period 2017–2018

[Original: English and Spanish]

Summary

After two years of contraction of regional GDP, economic growth turned positive in 2017 (1.3 per cent), as a result of increases in both domestic demand and export volumes. Domestic demand was up by 2.1 per cent on average, reflecting an increase in all its components, but especially in private consumption and investment.

The slow but steady recovery of economic growth in Latin America and the Caribbean occurred in the midst of a context that was more favourable in real and financial terms, as both developed and emerging economies alike grew faster than in 2016, record-low international interest rates continued to benefit the region and commodity prices have more than rebounded from the collapse in 2016. However, concerns persist regarding the sluggish growth of global trade, which remains well below historic averages despite a higher rate of growth in 2017 than in 2016.

With regard to the external sector, the balance-of-payments current account deficit narrowed from 1.9 per cent in 2016 to 1.5 per cent in 2017 on the back of the significant jump in the value of exports, which largely reflected the increase in Brazilian exports in 2017.

During the first 10 months of 2017, average inflation in Latin America and the Caribbean continued the downward trend that started in mid-2016, falling from 7.3 per cent at December 2016 to 5.7 per cent at December 2017. Year-end inflation levels in the region were the lowest they have been since the end of 2013. In spite of that downward trend, however, a slight increase has been recorded since July 2017, ending 13 consecutive months of declining inflation in the region.

Despite the slow economic recovery in 2017, the urban unemployment rate in Latin America and the Caribbean continued to rise, albeit at a lower rate than the previous year, from 8.9 per cent in 2016 to 9.3 per cent in 2017. As a result, the cumulative increase in unemployment between 2014 and 2017 was 2.4 percentage points, or 7 million people (from 15.8 million to 22.8 million), in the region's urban areas. In addition, average job quality fell again in the same period, owing to weak creation of wage employment.

This scenario, marked by a moderately optimistic global outlook, slow but steady growth, downturns in labour markets and divergent inflation trends in the north and south of the region, still presents challenges to macroeconomic policy. In terms of fiscal policy, despite the variation in debt and deficit levels between countries, fiscal consolidation continued to set the tenor of fiscal policy in the region in 2017. Accordingly, the primary deficit for the region on average narrowed from -1.0 per cent of GDP in 2016 to -0.7 per cent in 2017, mainly owing to a slowdown in primary public expenditure which, together with a slight increase in tax receipts, allowed debt servicing payments to be met.

With respect to monetary and exchange-rate policies, inflation continues to define the margins available to monetary authorities for stimulating aggregate domestic demand. In South America and the non-Spanish-speaking Caribbean, falling inflation rates are providing space for more expansionary monetary policies, whereas in Central America and Mexico, the management of monetary policy was geared

towards controlling increases in general prices. Exchange rates showed marked stability in 2017.

The context for the region's performance in 2018 will continue to be favourable in both real and monetary areas, with a projected average regional GDP growth rate of 2.2 per cent, largely reflecting the projected growth for Brazil (2.2 per cent). The global economy is expected to continue to grow at rates close to those recorded in 2017, and emerging economies are poised to outperform developed ones. On the monetary front, liquidity will remain high and international interest rates will remain low. This opens up a promising opportunity for Latin American and Caribbean countries to expand their economic policy space in a way that will sustain the expansionary phase of the business cycle. However, there are still risks associated with the pace and extent of the normalization of monetary policy in developed countries and the pace of recovery in global trade.

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Introduction

1. Regional GDP grew for the first time in three years in 2017, consolidating the trend reversal which had begun in the last quarter of 2016. Although differences exist between countries and subregions and growth rates remain low, the improved performance compared to 2016 is widespread throughout Latin America and the Caribbean, spurred by the recovery of private consumption and — after several years of contraction — investment as drivers of domestic demand. Nevertheless, the continued deterioration of the labour market, with rising rates of urban unemployment in the region and a decline in average job quality, remains a concern.

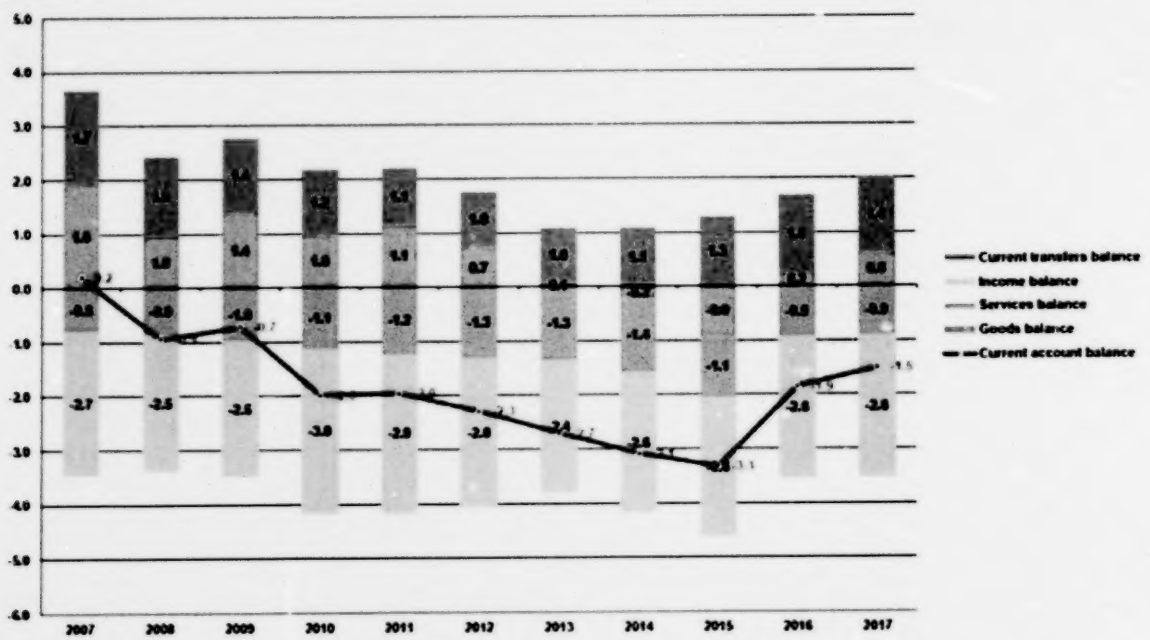
2. This report on the economic situation and outlook for Latin America and the Caribbean in 2017–2018 is divided into seven sections. The first six sections summarize the economic performance of the region in 2017 in the following areas: (i) the external sector; (ii) economic activity; (iii) domestic prices; (iv) employment and wages; (v) fiscal policy; and (vi) monetary and exchange-rate policies. Lastly, the seventh section analyses the trends and outlook for 2018.

A. The external sector

3. The regional current account deficit narrowed for the second year running, dropping to 1.5 per cent of GDP in 2017, against the 1.9 per cent seen in 2016 (see figure 1), owing mainly to the decline in Brazil's deficit, by almost one percentage point of GDP, thanks to strong export growth.

Figure 1
Latin America (19 countries): balance-of-payments current account by component, 2007–2017[a]

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

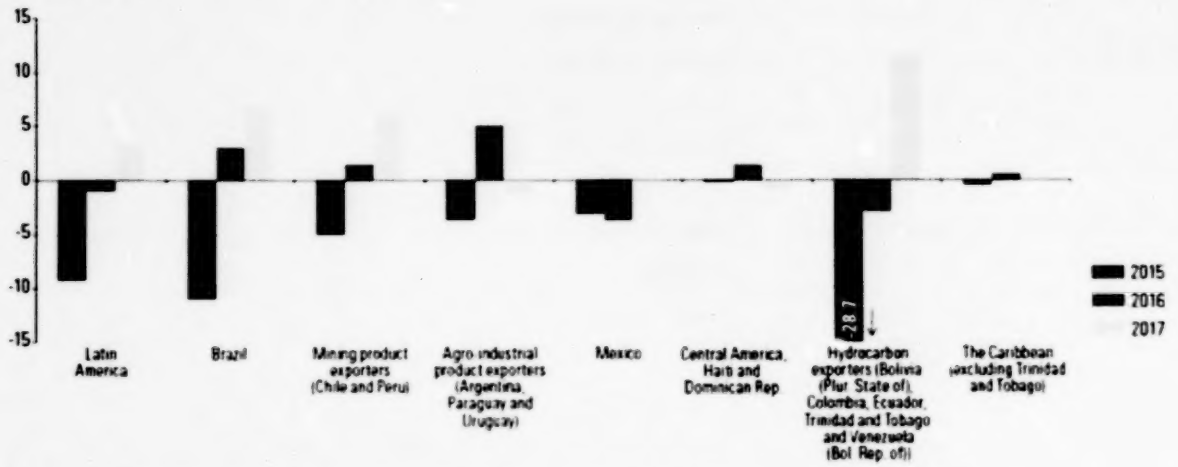
[a] The figures for 2017 are preliminary.

4. Most countries posted an improvement in their trade balances and transfers, owing especially to migrants' remittances, which were partly offset by larger interest payments abroad and the repatriation of profits by transnational firms.

5. The recovery in prices for the region's main exports in 2017 boosted the terms of trade by 4 per cent compared with 2016 (see figure 2). Hydrocarbon-exporting countries benefited the most, with a 13 per cent increase in their terms of trade. Exporters of mining products also saw a 10 per cent increase in their terms of trade. With prices of agricultural products rising only slightly and higher prices for energy products and other intermediate goods, exporters saw a 4 per cent decline in terms of trade in 2017. The situation was similar in Central American and Caribbean countries, where the terms of trade declined by 2 per cent.

Figure 2
Latin America and the Caribbean (selected countries and groupings): variation in the terms of trade, 2015–2017[a]

(Percentages)

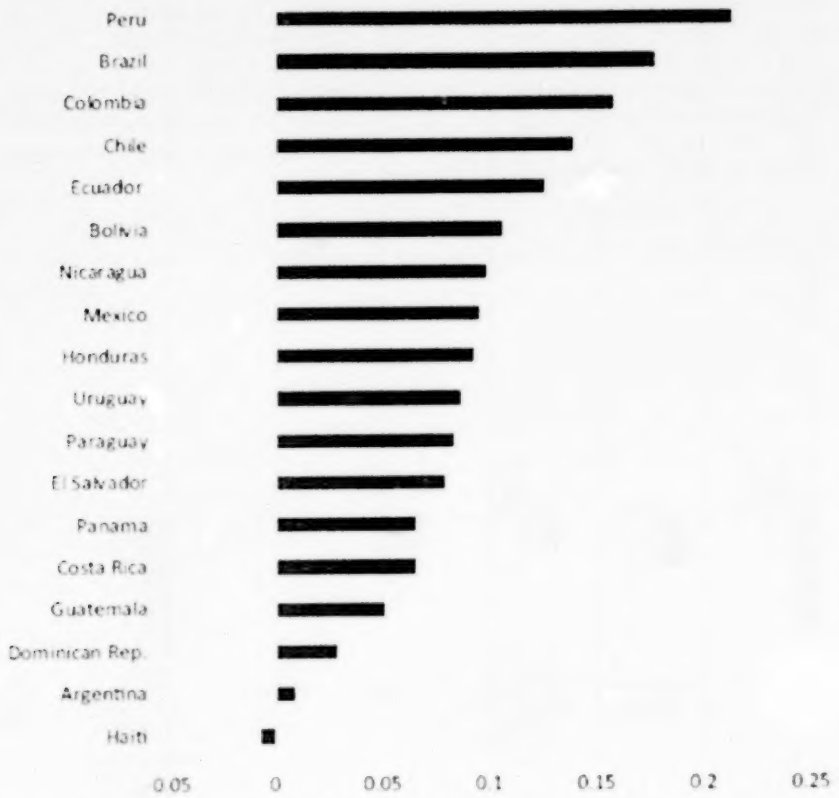


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The figures for 2017 are preliminary.

6. Higher commodity prices, along with an improvement in global and intraregional trade, are reflected in an increase Latin American exports, which rose by 11 per cent after four years of contractions. Brazil, in particular, recorded a jump of 18 per cent. Once again, mineral- and hydrocarbon-exporting countries profited the most from the higher prices, as their export value increased by 17 per cent and 12 per cent, respectively. Those countries whose exports comprise mainly agricultural products registered a 3 per cent rise in their foreign sales. The combination of higher crude oil prices and the improvement in Mexico's manufacturing exports boosted that country's exports by 10 per cent. The Central American countries recorded an increase of 6 per cent in exports owing mainly to greater volumes.

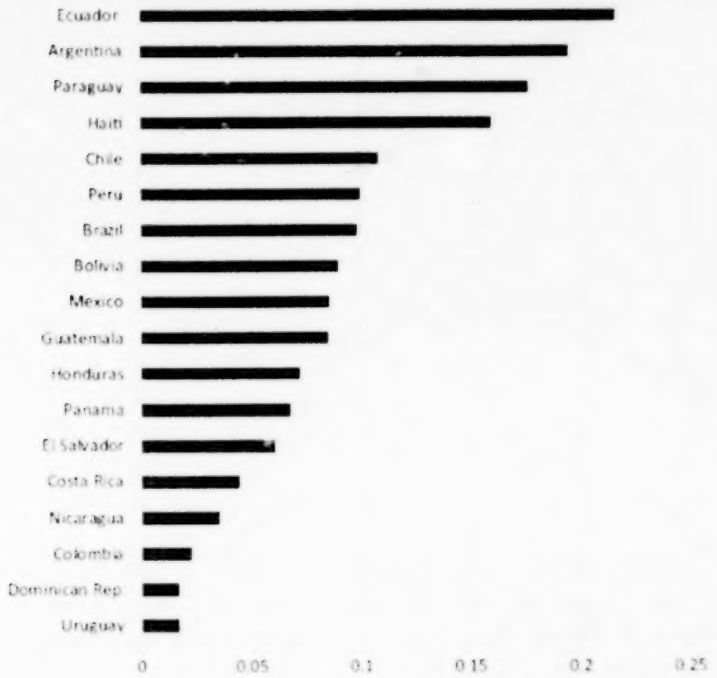
Figure 3
Latin America and the Caribbean (selected countries): variation in goods exports, 2017[a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] Preliminary data.

7. Imports of goods in 2017 were up 9 per cent compared to the previous year. With the exception of the Bolivarian Republic of Venezuela, all countries in the region recorded increases in imports, reflecting the upturn in economic activity and specific situations such as the lifting of import safeguards in Ecuador in mid-2017. Meanwhile, the rise in commodity prices, particularly of energy products, along with stronger volumes, explains the expected 6 per cent jump in imports into Central America.

Figure 4
Latin America and the Caribbean (selected countries): variation in goods imports, 2017[a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] Preliminary data.

8. While the improvement in the regional trade balance in 2016 was owed primarily to the drop in imports, in 2017 it was largely a result of increased exports. As a result, the region moved from a deficit representing 0.9 per cent of GDP in 2015 to surpluses equivalent to 0.2 per cent and 0.6 per cent of GDP in 2016 and in 2017, respectively. In contrast, the services account deficit remained the same as in 2016, at around 0.9 per cent of GDP.

9. With respect to the income account, the improvement in commodity prices implied a nominal expansion of the deficit, given the higher level of repatriated earnings from foreign investment in natural resources.[1] However, in GDP terms, the deficit remained at 2.6 per cent. At the same time, the current transfer balance, which is a historically positive account, registered a surplus of 1.4 per cent of GDP. In 2017, migrant remittance flows, which are the main component of transfers, climbed by 9 per cent on average in the region, thanks to stronger economic growth in the originating countries.

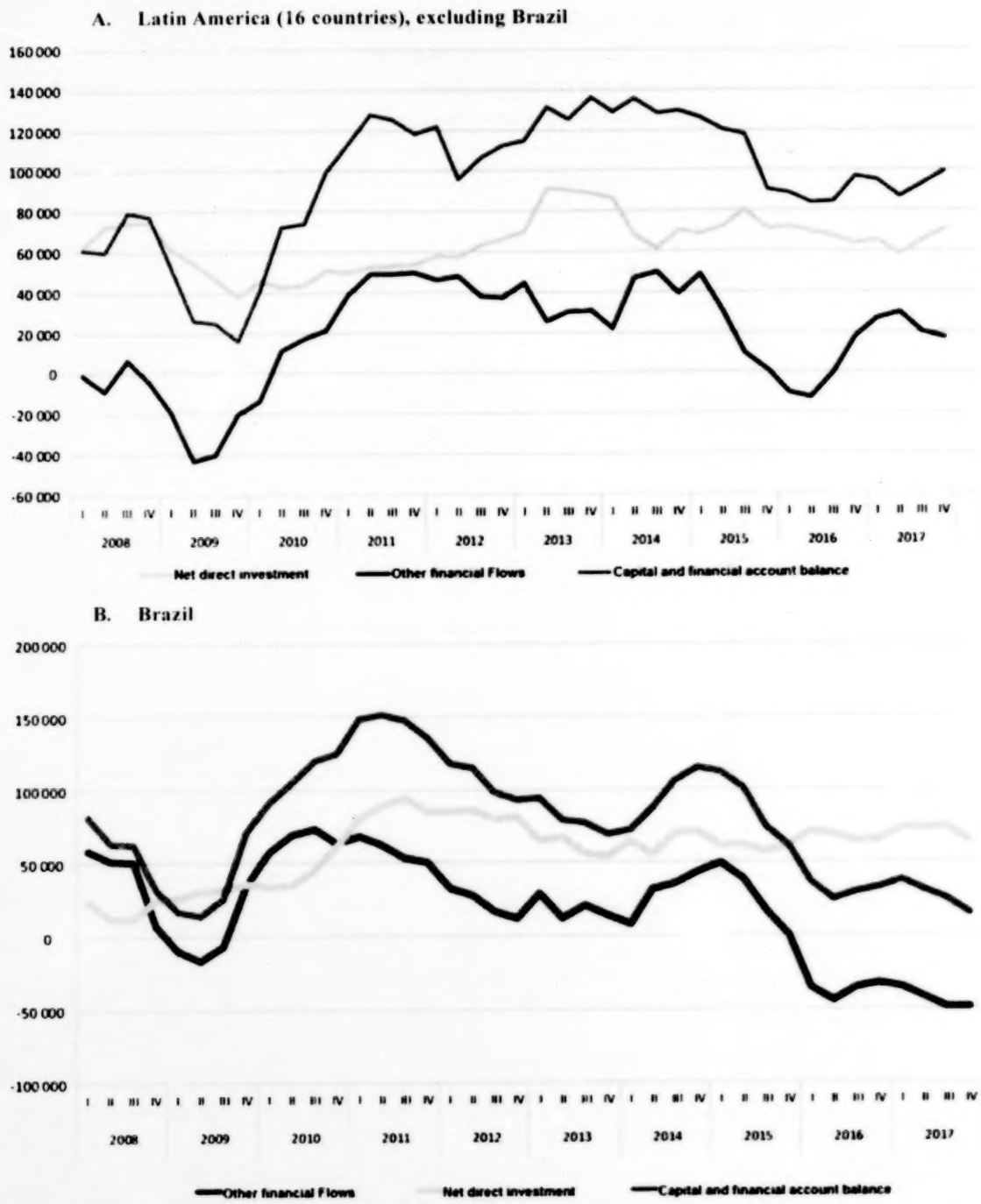
10. In 2017, overall net financial flows to the region were 4 per cent lower than in 2016, but were still enough to cover the current account deficit and even to accumulate international reserves. Net foreign direct investment (FDI) flows rose by 4 per cent in 2017 (see figure 5).

[1] The income account has long been structurally negative in the region, as a result of outward remittances of profits on FDI and interest on external debt.

Figure 5

Latin America (selected countries): capital and financial account by component, rolling years, first quarter of 2008 to fourth quarter of 2017

(Millions of dollars)



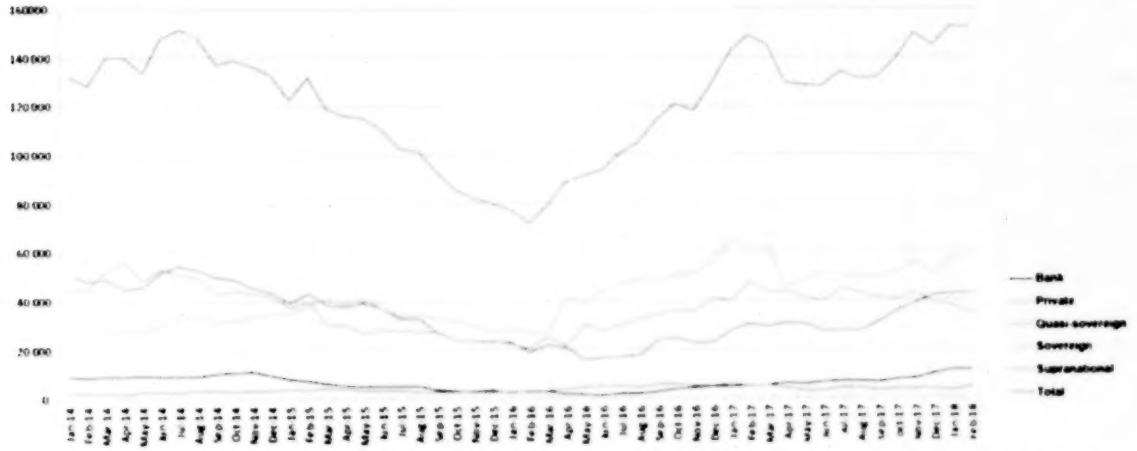
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

11. Non-FDI flows (basically, portfolio and other types of investment flows) fell in the region as a whole as a result of greater outflows from Brazil.

12. Bond issues in international markets by the countries of the region continued to grow, and rose by almost 12 per cent in 2017 owing to a stronger appetite for emerging market assets and more favourable economic conditions in the region. The banking and private corporate sectors posted the strongest increases in bond issues, while those of the other sectors fell year-on-year.[2]

Figure 6
Latin America (15 countries): bonds issued in international markets, rolling years, January 2014 to February 2018

(Millions of dollars)



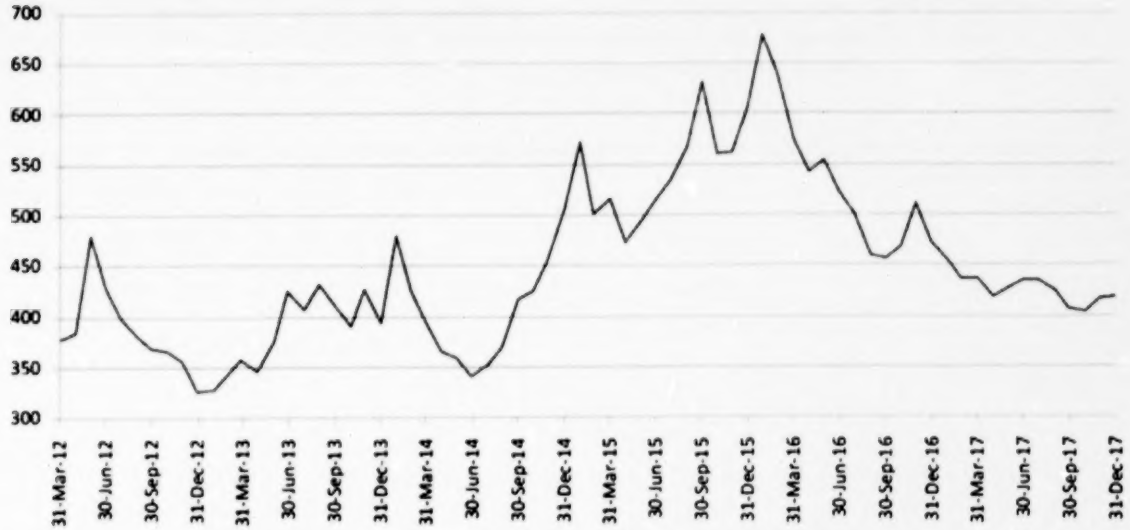
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the Latin Finance Bonds Database.

13. Sovereign risk levels in almost all the countries of the region have been declining since early 2016, reflected in the fall in the Emerging Markets Bond Index for the region (figure 7), in line with calmer global financial markets and greater financing volumes in the region's bond markets.

[2] The quasi-sovereign sector includes public sector development banks and State-owned enterprises, among other entities. The supranational sector includes regional development banks, such as the Development Bank of Latin America (CAF) and the Central American Bank for Economic Integration (CABEI).

Figure 7
Latin America (13 countries): sovereign risk according to the Emerging Market Bond Index Global (EMBIG), January 2012–December 2017

(Basis points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from JP Morgan.

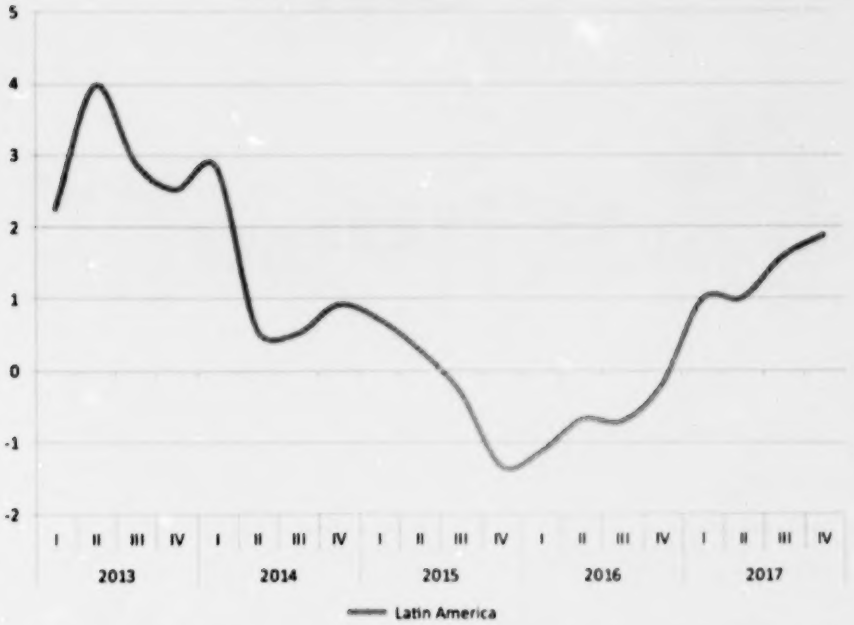
B. Economic activity

14. In 2017, regional GDP grew by 1.3 per cent, sustained by growth in Brazil, which is recovering after 12 quarters of contraction. The growth in the region's GDP translated into an increase in the region's per capita GDP for the first time since 2014, as the latter rose by 0.3 per cent.

Figure 8

Latin America: year-on-year change in quarterly GDP, weighted averages, first quarter of 2013–fourth quarter of 2017

(Percentages, on the basis of dollars at constant 2010 prices)



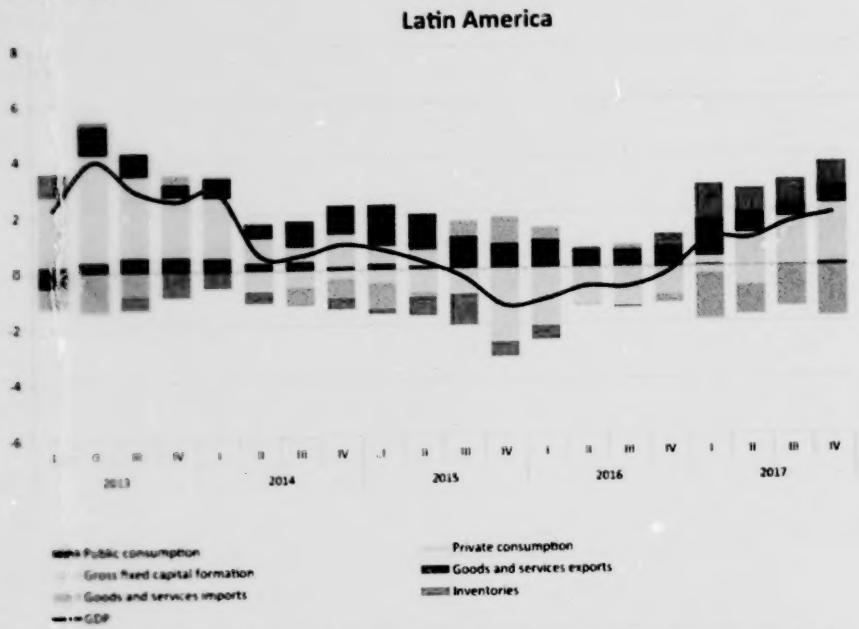
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

15. Performance varied greatly across countries and subregions. The economies of South America grew by 0.8 per cent in 2017, after two years of economic downturn, while the economies of Central America, Cuba, the Dominican Republic and Haiti, had an average growth rate of 3.3 per cent, as in 2016. The English- and Dutch-speaking Caribbean registered average growth rates of 0.1 per cent in 2017, a figure that reflects the damage wrought by Hurricanes Irma and María.

16. This performance comes on the back of rising consumption and investment, as well as rising external demand. In this period, investment climbed 5.3 per cent, fuelled by an increase in inventories; private consumption grew by 1.8 per cent, mainly as a result of a rise in real wages; and public consumption was up by 0.2 per cent (see figure 9).

Figure 9
Latin America: GDP growth rates and contribution by expenditure components to growth, first quarter of 2013–fourth quarter of 2017

(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

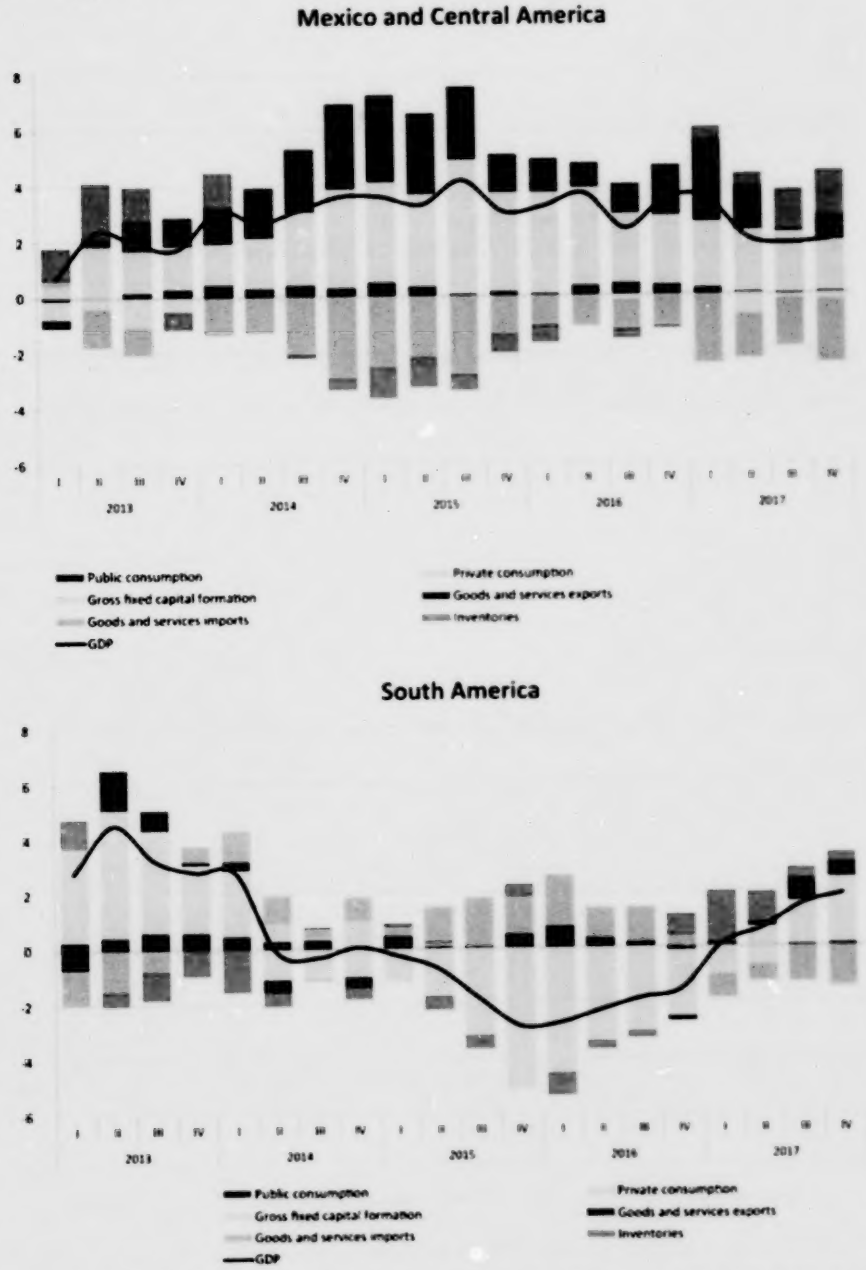
17. The more encouraging international context and the improved performance of domestic demand allowed imports and exports to expand. However, given the significant increase in imports, net exports over the first three quarters of 2017 made a negative contribution of -0.9 percentage points to GDP.

18. The clear contrast in trends that had existed between the South America and the group comprising Central America, the Dominican Republic and Mexico since 2013 began to evaporate in the third quarter of 2017. While South America began to recover towards the end of 2016, the Central America, Dominican Republic and Mexico group continue along the path they have followed over the past few years. In South America, the components that contributed most to GDP growth were the recovery of investment and, to a lesser extent, private consumption and exports. In the north of the region, however, growth was spurred by the contributions of private consumption and exports (see figure 10).

19. The region's gross fixed capital formation rose by 0.7 per cent in the third quarter of 2017 and by 2.9 per cent in the fourth quarter, after falling for 13 consecutive quarters on account of the drop in gross fixed capital formation in South America, particularly in Brazil. However, in the third and fourth quarters of 2017, South America reported increases of 1.3 per cent and 5 per cent, respectively, in gross fixed capital formation. Conversely, gross fixed capital formation in Central America, the Dominican Republic and Mexico fell by 0.2 per cent and 0.4 per cent, respectively, in the same periods.

Figure 10
Latin America (selected groupings): GDP growth rates and contribution by expenditure components to growth, first quarter of 2013–fourth quarter of 2017

(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

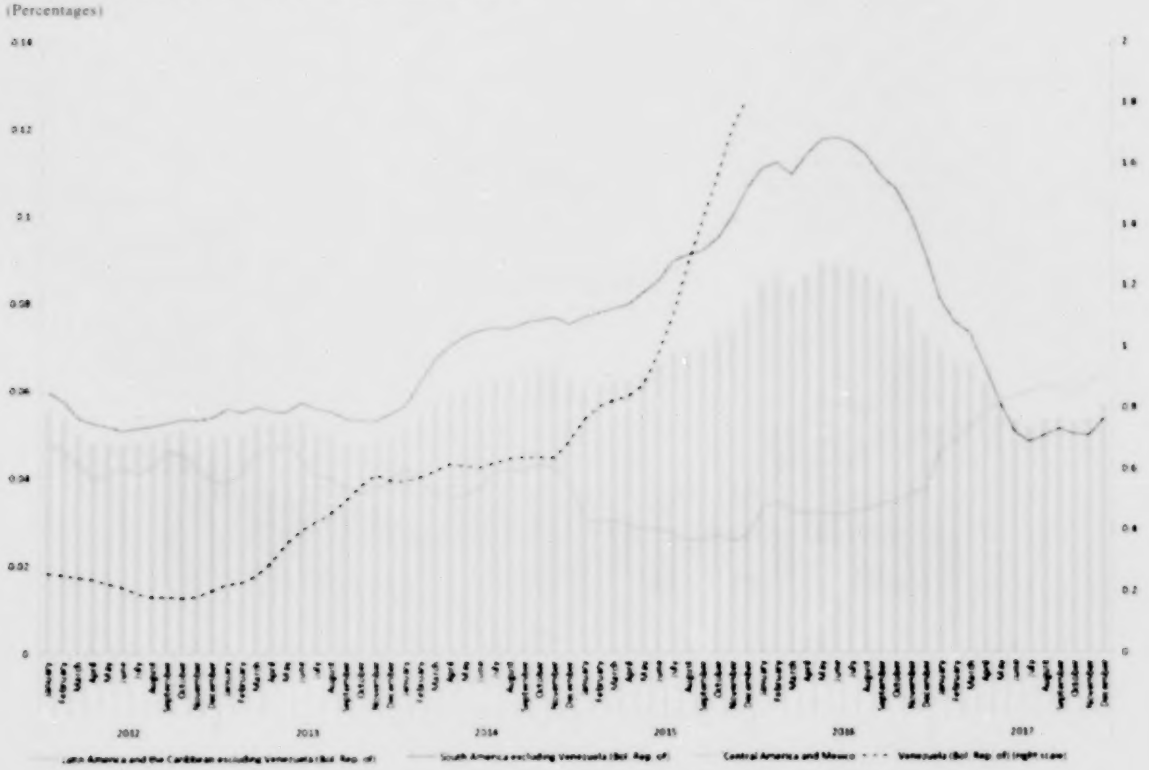
20. The uptick in private consumption is also behind the increase observed in commerce. Likewise, the recovery of the external sector, coupled with greater dynamism in domestic demand, was reflected in the growth of the transport and communications sectors and manufacturing industry.

21. In contrast, mining and quarrying contributed negatively to GDP growth.

C. Domestic prices

22. In 2017, average inflation in Latin America and the Caribbean, excluding the Bolivarian Republic of Venezuela, continued the downward trend that started in mid-2016, falling by 1.6 percentage points year-on-year (from 7.3 per cent at December 2016 to 5.7 per cent at December 2017). In fact, 2017 closed with the lowest year-end inflation for the region since 2013. At the same time, a slight increase has been recorded since mid-2017, ending 13 consecutive months of declining inflation.

Figure 11
Latin America and the Caribbean: consumer price index (CPI), weighted average 12-month rates of variation, January 2014–December 2017



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

23. Inflationary patterns are clearly differentiated between the subregions. Inflation dropped by 3.8 percentage points in South America, from 9.1 per cent in December 2016 to 5.3 per cent in December 2017, and by 1.9 percentage points in the Caribbean, falling from 5.6 per cent in November 2016 to 3.7 per cent in November 2017; while

in Central America and Mexico, inflation rose by 2.7 percentage points, from 3.7 per cent in December 2016 versus 6.4 per cent in the same month of 2017. Exchange-rate dynamics and monetary policies are behind these differences. While currency appreciation in the economies of the south of the continent has helped to drive down prices, the depreciation of currencies in the Central America and Mexico group has sparked an increase in inflation. Added to this is the application of policies aimed at disinflation in Argentina, Brazil, Colombia and Suriname.

D. Employment and wages

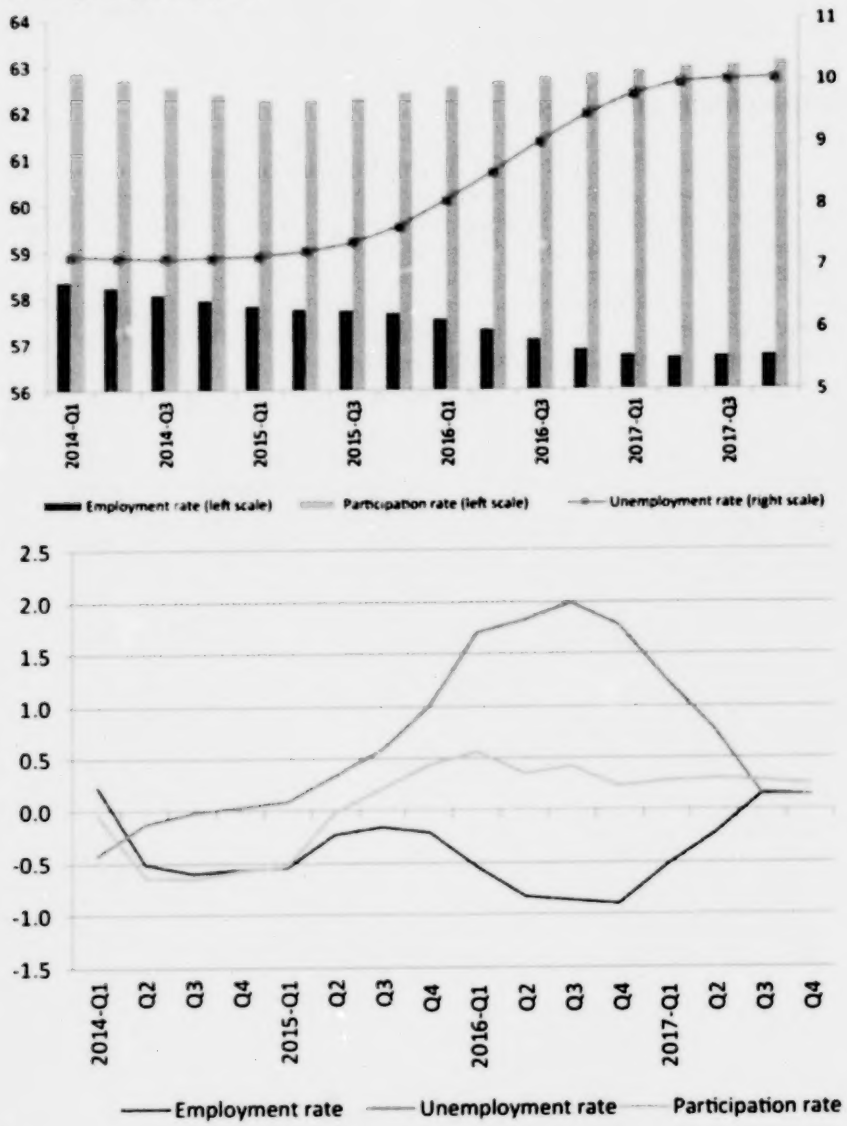
24. In 2017, the region registered an increase in unemployment and a deterioration in average job quality, although less markedly than in 2016. The urban unemployment rate in Latin America and the Caribbean rose from 8.9 per cent in 2016 to an average of 9.3 per cent in 2017. That resulted in a cumulative increase of 2.4 percentage points since 2014 and a rise of 7 million unemployed people (from 15.8 million to 22.8 million) in the region's urban areas between 2014 and 2017. Over the year, however, the year-on-year decline eased gradually, and the first reduction in the urban unemployment rate since 2014 is expected in 2018.

25. Over the course of the year, in line with the gradual reactivation of the region's economy, both the employment and unemployment rates improved. As shown in figure 12, the year-on-year drop in the urban employment rate declined gradually and, in the third and fourth quarters of 2017, improved very slightly compared to the same period the previous year. Taking into account the dynamics of economic growth up to the end of 2017 and the forecasts for 2018, these trends indicate that both indicators will post modest improvements over the current year.

Figure 12

Latin America and the Caribbean (11 countries): urban participation, employment and unemployment rates (rolling years) and year-on-year changes (weighted averages), first quarter of 2014 to fourth quarter of 2017[a]

(Percentages and percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The countries covered are Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Paraguay, Peru and Uruguay.

26. As in 2016, the region's 2017 results were strongly influenced by the performance of the Brazilian labour market where, while the deterioration eased over the year, the average annual unemployment rate rose from 11.5 per cent to 12.7 per cent nationally. However, deteriorating labour indicators were a relatively widespread

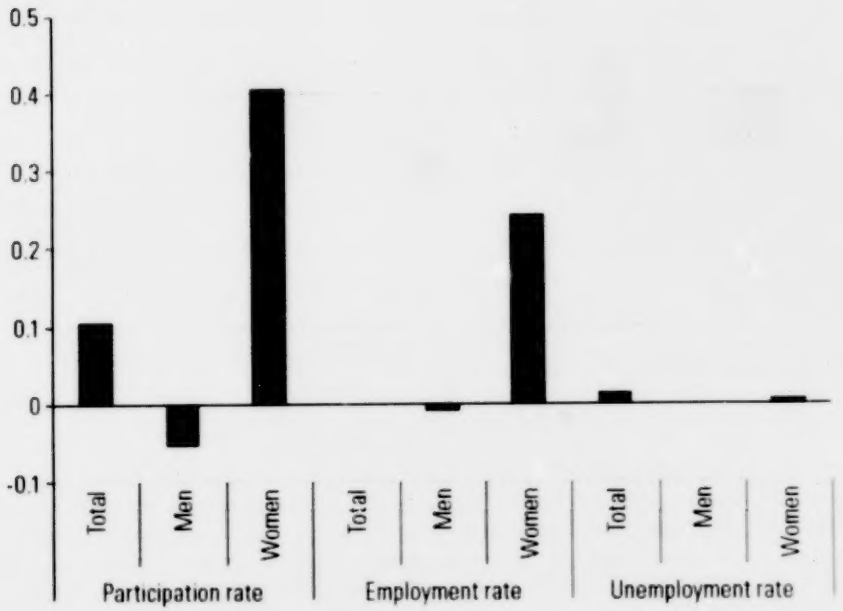
phenomenon. This was especially true in South America. The results for the same year were somewhat more favourable in the Caribbean and, most particularly, in Mexico and Central America.

27. In most countries, women's participation in the labour market rose faster than their employment rate, leading to higher female unemployment rates. In contrast, the number of men leaving the labour market pushed down the open unemployment rate, even though male employment rates remained unchanged (figure 13). Thus, the gender gaps in participation and employment rates narrowed, but widened in the case of the unemployment rate.

Figure 13

Latin America and the Caribbean (18 countries): year-on-year changes in participation, employment and unemployment rates by sex, median values, 2017[a]

(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The countries covered are Argentina, the Bahamas, Barbados, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago and Uruguay.

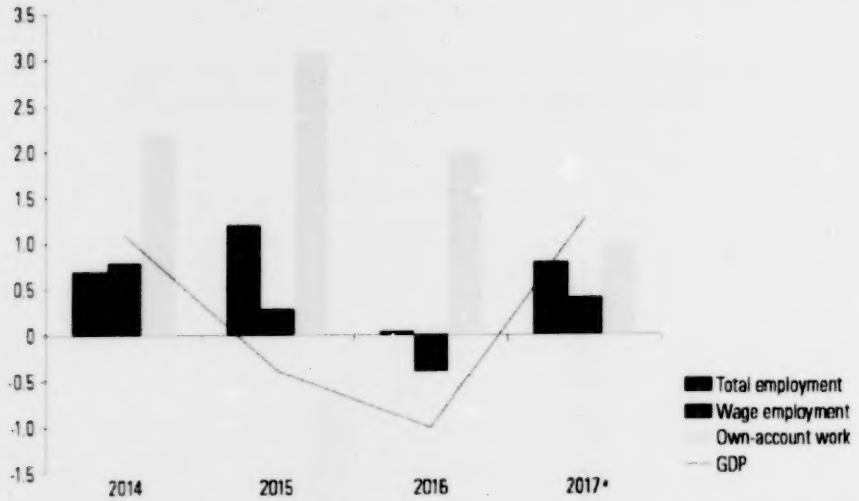
28. Since 2013, own-account work has grown faster than wage employment, with particularly sharp differentials reported between 2014 and 2016[3] (figure 14). This occurred again in 2017: despite moderate dynamism in wage employment creation in some countries, in general those new jobs were not created in sufficient numbers to meet the needs of labour market entrants and, again, own-account work increased more rapidly than wage employment. This divergence reflects, first, the weakness of the demand for labour and thus of wage employment creation in private companies

[3] In 2013, own-account work grew slightly more than wage employment. However, other categories of non-wage work expanded only weakly. Thus, the share of wage jobs in total employment increased, thereby maintaining the prevailing trend that started in 2004.

and the public sector. Second, it was the result of pressure from the labour supply, given that many households were forced to seek earnings from sources other than waged employment and to self-generate paid work, generally with precarious and volatile incomes and without social protection; thus, this increase indicates a deterioration in average job quality, although not as pronounced as in previous years.

Figure 14

Latin America and the Caribbean (12 countries): economic growth and job creation dynamics, weighted averages, 2014–2017[a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The countries covered are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay and Peru.

29. Registered employment,[4] which is used as an indicator of formal, better quality jobs, evolved along lines similar to the patterns analysed above: (i) the creation of jobs of this kind was weak, (ii) the situation improved as the year progressed, and (iii) countries in the north of the region posted more favourable results than the countries of South America, where the growth rate of jobs of this kind did not exceed 1 per cent.

30. The evolution of the real wages for registered employment was shaped by the combined impact of the constrained demand for labour (and its implications for nominal wages) and the evolution of inflation. As shown in figure 15, in the group of countries from the northern subregion, the nominal wage growth rate increased, but steeper inflation caused a slightly slower growth in real wages than in 2016.

[4] In most cases, indicated by the numbers contributing to social security or its components.

Figure 15
Latin America (10 countries): breakdown of year-on-year variation in real wages by subregions, simple average for 2016 and 2017[a]

(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The countries covered are Costa Rica, El Salvador, Mexico and Nicaragua in the northern subregion, and Brazil, Chile, Colombia, Paraguay, Peru and Uruguay in the southern subregion.

31. In contrast to the prevailing trend in the north of the region, the sharp drop in inflation in the South American countries for which figures are available had a favourable impact on real wages that more than offset the slower growth in nominal wages.

32. As in previous years, the evolution of average wages in most of the countries was supported by wage policies that aimed at ensuring moderate increases in real-term minimum wages. Thus, the median real-term minimum wage for 18 Latin American and Caribbean countries rose by 2.7 per cent.

33. In 2018, the return to economic growth is expected to have a positive impact on overall demand and job creation and, as a result, the region's urban employment rate will increase slightly, for the first time since 2013. The impact of this increased job creation will be limited, however, as the trend of a moderately rising participation rate is expected to continue. Consequently, the region's urban unemployment rate is forecast to fall slightly, by 0.2 percentage points, and to stand at an average of 9.1 per cent in 2018. At the same time, because of the modest increase in the demand for labour and because inflation rates are generally being held in control, the trend of gradually rising real wages is expected to continue.

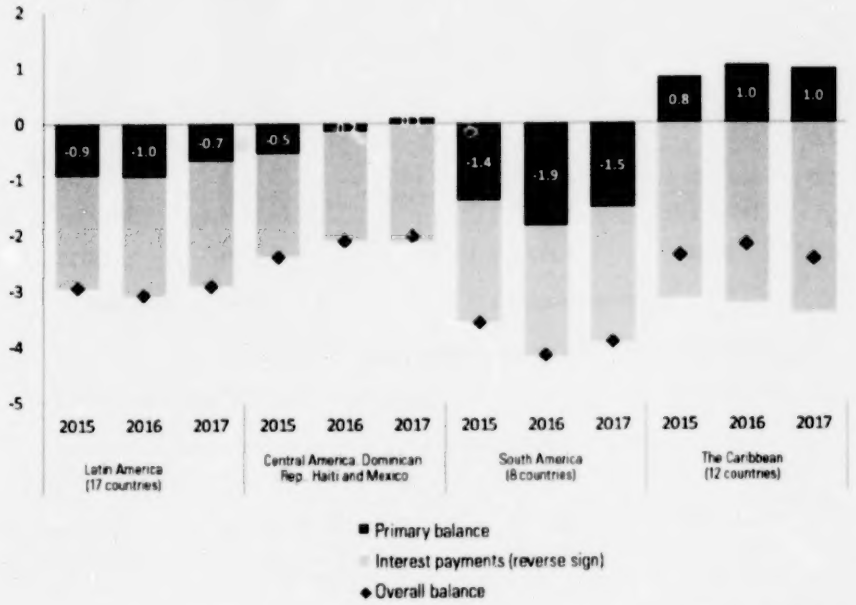
E. Fiscal policy

34. In 2017, the primary deficit for the 17 reporting countries of Latin America declined from its 2016 level of -1.0 per cent of GDP to -0.7 per cent of GDP, as a result of a slowdown in public expenditure and the countries' efforts to boost fiscal revenues (see figure 16). However, an increase in public debt servicing costs prevented a decline of the same magnitude in the overall balance, which stood

at -2.9 per cent of GDP. Given these factors, the adjustment of fiscal accounts had the effect of reducing the contribution of general government consumption to GDP growth to around zero, according to the corresponding national accounts. The overall balance, however, is uneven across countries and subregions.

Figure 16
Latin America and the Caribbean: overall and primary balances and interest payments, 2015–2017[a,b]

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Simple averages. The figures for 2017 are preliminary. The data do not include figures for the Bolivarian Republic of Venezuela or the Plurinational State of Bolivia.

[b] The averages shown for the Caribbean do not include figures for Dominica, which registered a fiscal surplus of 35.1 per cent of GDP in 2016 owing to the receipt of windfall gains.

35. The primary deficits narrowed both for the group comprising Central America, the Dominican Republic, Haiti and Mexico (from -0.2 per cent to -0.1 per cent of GDP) and, for the first time in five years, for South America (from -1.9 per cent to -1.5 per cent of GDP). However, interest payments rose in both subregions, which mitigated the reduction of the overall deficit. A similar phenomenon occurred in the Caribbean: although the primary surplus held at 1.0 per cent of GDP, rising interest payments (from 3.2 per cent to 3.4 per cent of GDP) drove up the total deficit. On average, interest payments in the region reached 2.3 per cent of GDP, representing a 0.2 percentage-point increase compared with 2016.

36. Despite the generally positive trend in primary deficits, with primary deficits that remained high in South America and some Central American countries and the upward trend in some Caribbean countries, a note of caution must be sounded regarding primary public savings in the region.

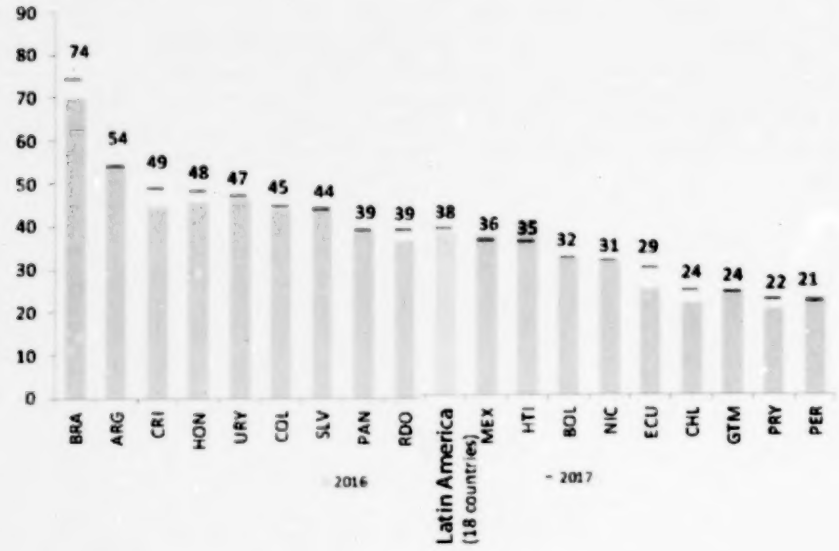
37. In December 2017, Latin America's gross public debt amounted to 38.4 per cent of GDP, which was similar to the level recorded at the close of 2016. Although the

simple average of the public debt hardly changed at all, the number of countries that witnessed an increase in their level of debt rose; this was offset by a decline in debt levels in 7 of the 19 countries of the region, however. In many of the countries, the upswing in debt levels was primarily fuelled by increased sovereign debt issues undertaken in an effort to find new sources of financing.

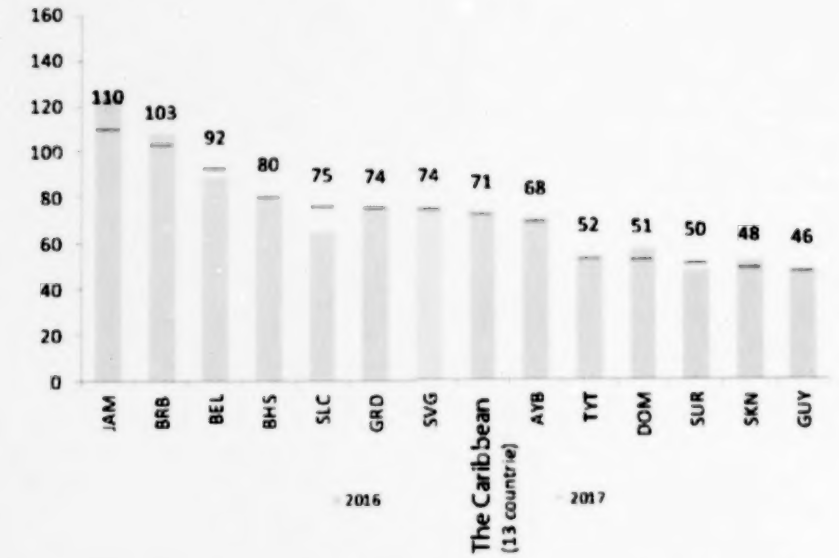
38. At the subregional level, South America's gross public debt expanded by 0.8 percentage points of GDP to 38.7 per cent of GDP, on average. In the group comprising Central America, Haiti, the Dominican Republic and Mexico, the level of indebtedness slipped by 0.2 percentage points of GDP to an average of 38.0 per cent of GDP. In the Caribbean, as of the third quarter of 2017, central government debt amounted to 70.9 per cent of GDP, for a drop of 1.5 percentage points from its 2016 level.

Figure 17
Latin America and the Caribbean: gross central government debt, 2016–2017
(Percentages of GDP)

A. Latin America



B. The Caribbean



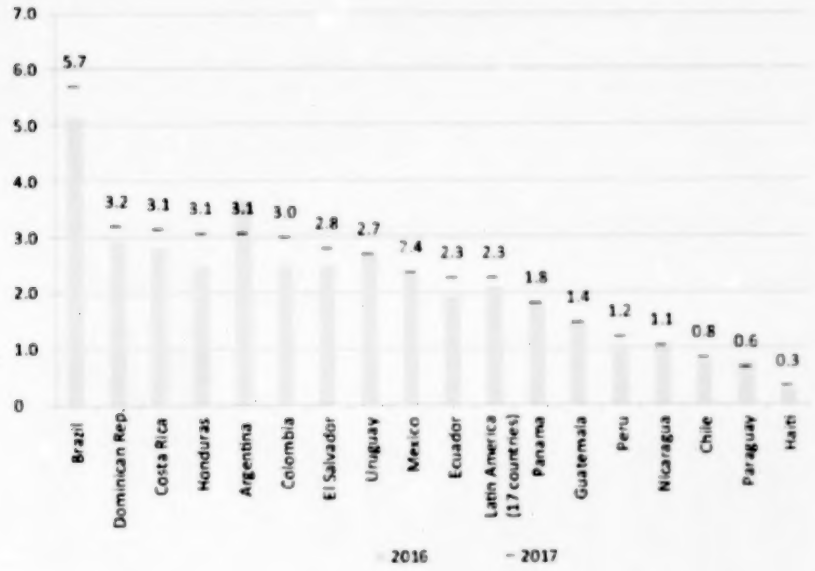
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

39. The relative stability of public debt in Latin America, despite the persistence of sizeable fiscal deficits, can be accounted for, in large part, by the strengthening real growth rate and the steep adjustment in the value of assets (the stock-flow effect).

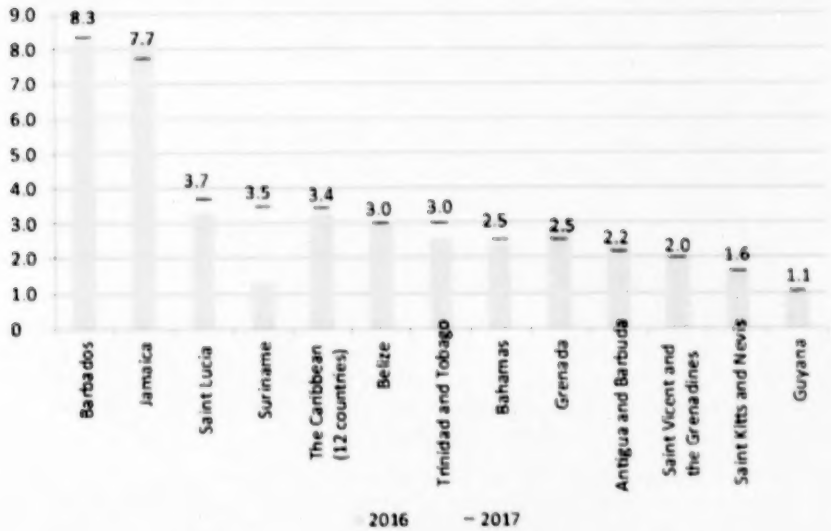
Figure 18
Latin America and the Caribbean: interest payments on the central government's gross public debt, 2017

(Percentage points of GDP)

A. Latin America



B. The Caribbean



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

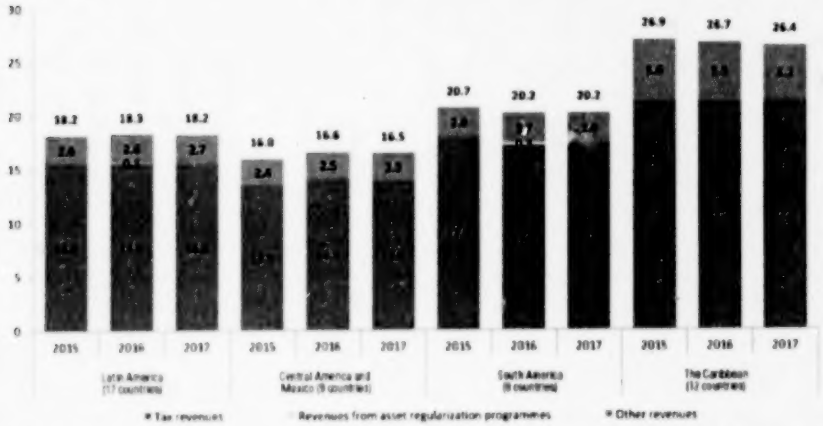
40. With regard to tax receipts, different situations can be observed from one subregion to the next. The reactivation of economic activity in South America has spurred an upswing in tax receipts, as revenues from the value added tax stopped experiencing negative growth rates. In contrast, rates of increase in value added tax receipts in Central America, the Dominican Republic and Mexico slowed somewhat, mainly on account of the slowdown in GDP growth and in private consumption, in particular, together with the statistical effects of a high basis of comparison in some countries.

41. Importantly, the drag on public revenues from the sharp drop in fiscal income from raw materials eased substantially in 2017. Revenues from the production and sale of hydrocarbons in the region are expected to stabilize around 3 3 per cent of GDP on average, following substantial declines in 2015 and 2016.

42. Other income, composed primarily of non-tax revenues and grants and donations, changed little, to 2.7 per cent of GDP, on average. In line with these trends, total central government revenues in Latin America are expected to have remained fairly stable in 2017 at around 18.2 per cent of GDP.

Figure 19
Latin America and the Caribbean: breakdown of total central government revenues, 2015–2017[a]

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Simple averages. The figures for 2017 are preliminary.

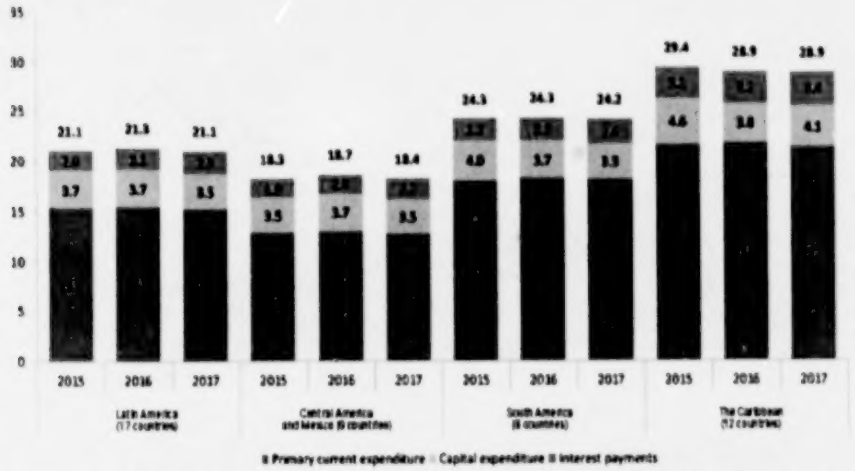
43. The persistence of public-sector deficits has put greater pressure on the region's governments to adopt fiscal consolidation measures, bringing the issue of the sustainability of the public debt to the fore.

44. These measures are not without challenges at a time of relatively slow economic growth in a region that is still marked by striking structural gaps. While the growth rate in total primary expenditure, which excludes interest payments, was reined back sharply in 2016, in 2017, spending picked up somewhat in some countries, but nonetheless climbed at a slower rate than in earlier years.

45. Total central government expenditure dropped or held steady in all subregions and, as a regional average, total spending as a percentage of GDP dipped from 21.3 per cent to 21.1 per cent. Behind this stability in the level of spending is a change in its composition: the share of public debt service rose (from 2.1 per cent to 2.3 per cent) and primary current expenditure fell, with a similar contraction in capital expenditure.

Figure 20
Latin America and the Caribbean: breakdown of total central government expenditure, 2015–2017[a]

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Simple averages. The figures for 2017 are preliminary.

F. Monetary and exchange-rate policies

46. In 2017, inflation continued to define the margins available to monetary authorities for stimulating aggregate domestic demand. In South America and the non-Spanish-speaking Caribbean, falling inflation rates provided space for a more expansionary monetary policy, whereas in Central America and Mexico, monetary policy was geared towards controlling increases in general prices.

47. Among the economies that use monetary policy rates as their main instrument, 2017 saw sharp decreases in those rates in Brazil (650 basis points) as well as in Chile, Colombia, Guatemala, Paraguay and Peru (see figure 21).

48. The cuts in benchmark monetary policy interest rates occurred after a series of increases — implemented at different times between 2013 and 2016 — as part of efforts to reduce inflationary pressures, particularly in Brazil and Colombia, where inflation rates and forecasts had exceeded the official targets. After controlling those pressures, the central banks have been able to reduce their benchmark rates and, by so doing, to attempt to stimulate aggregate demand.

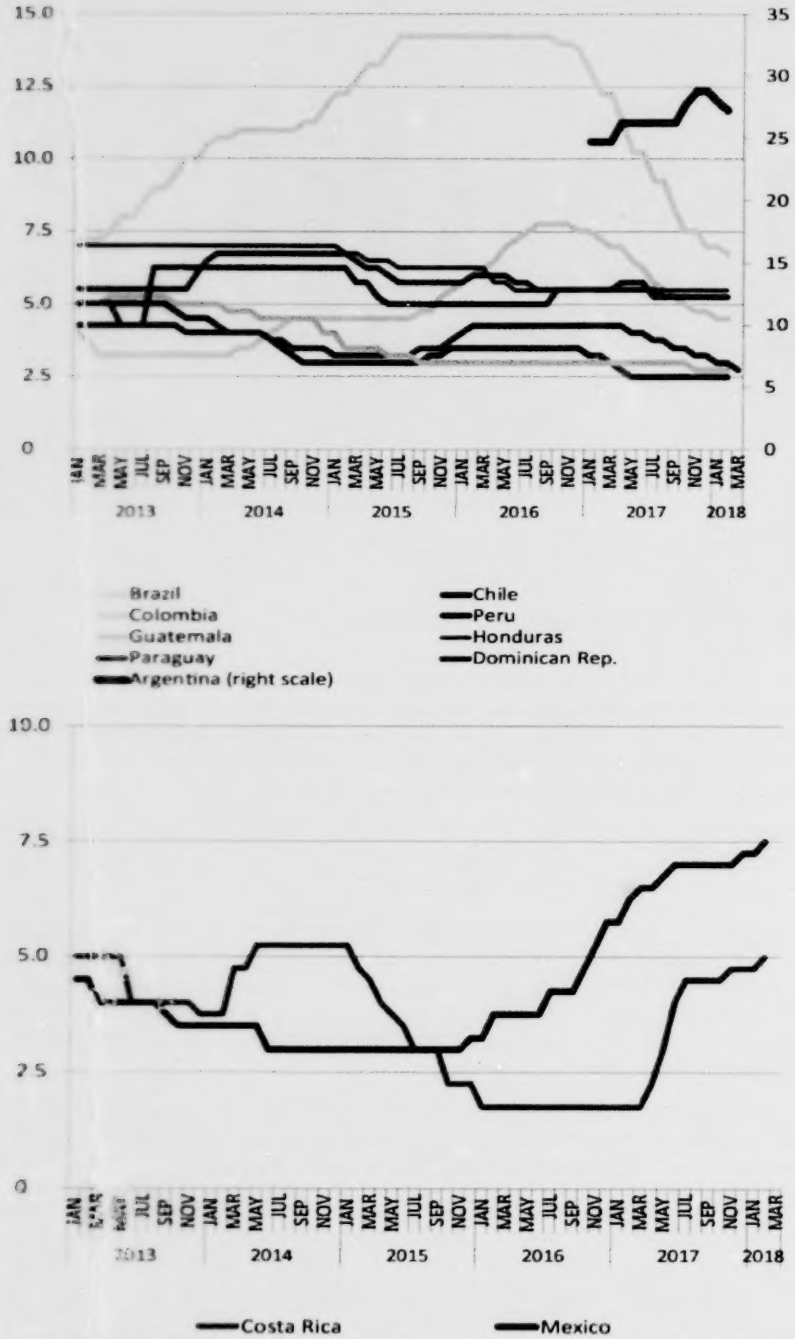
49. Conversely, the Argentine Central Bank has increased the benchmark interest rate by 250 basis points since January 2016 because current inflation is not in line with the target, making Argentina the main exception in the group.

50. Among the economies of Central America and Mexico, the dynamics are more diverse. Between January 2016 and March 2018, the Costa Rican and Mexican monetary authorities decided to increase their benchmark interest rates by 325 and 175 basis points, respectively, in response to rising inflation and, in the case of Mexico, the exchange rate volatility of the peso.

Figure 21

Latin America (selected countries): monetary policy interest rates in countries where they are used as the main policy instrument, January 2013–March 2018

(Percentages)



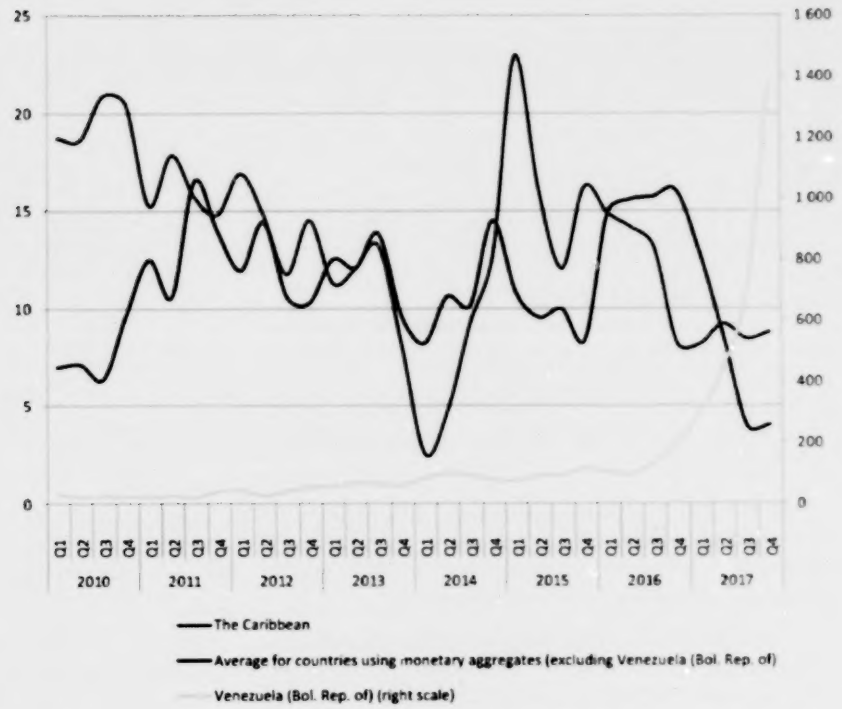
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

51. In the region's economies that use monetary aggregates as their main policy instrument, the monetary bases reported a slowdown in their pace of growth. In the economies of Latin America, the growth rate of the monetary base averaged 8.5 per cent between the fourth quarter of 2016 and the same period of 2017, which represents a drop of 7 percentage points from the average recorded between the first quarter of 2015 and the third quarter of 2016. The situation is similar in the economies of the non-Spanish-speaking Caribbean, with the monetary base growing an average of 4.0 percentage points less in the first two quarters of 2017 than in 2016. In the Bolivarian Republic of Venezuela, the monetary base grew at quarterly rates of above 200 per cent in 2017 and, in the fourth quarter of the year, the monetary base expanded by 1381 per cent.

Figure 22

Latin America and the Caribbean (groups of selected countries): evolution of the monetary base in countries where aggregates are the main monetary policy instrument, first quarter of 2010–fourth quarter of 2017

(Percentages)



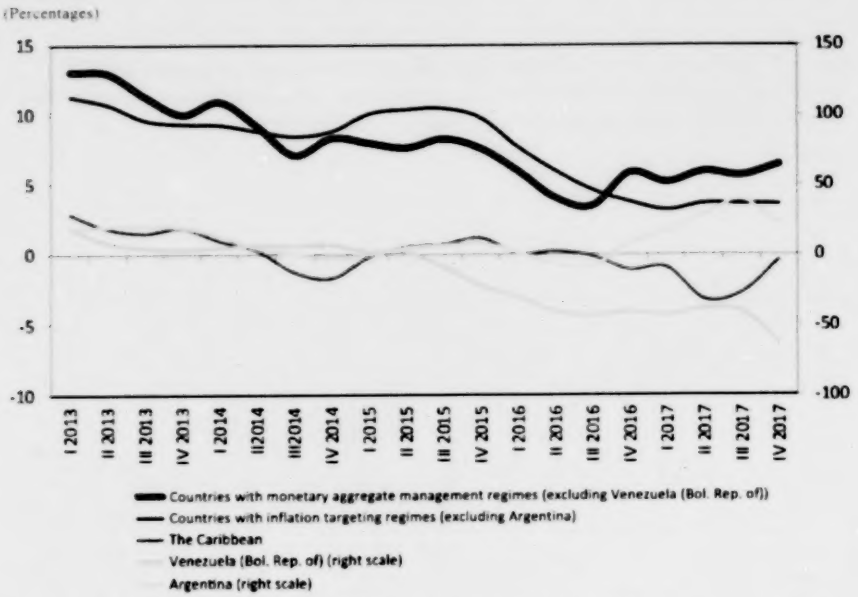
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

52. Nominal interest rates on loans have fallen in the different subregions identified for the analysis, with average drops of 20 basis points in the countries where interest rates are the main monetary policy instrument and in the economies of the non-Spanish-speaking Caribbean, and of 60 basis points in those economies that use aggregates as their primary monetary policy instrument. At the same time, even though there have been widespread drops in the lending rate, falling inflation across the region led to an increase in real interest rates.

53. During 2017, with the exception of the Bolivarian Republic of Venezuela, the economies of Latin America — both those that use policy interest rates as their main monetary policy instruments and those that use aggregates — posted slight increases in the private-sector credit growth rate. The contraction of domestic credit continued in the economies of the non-Spanish-speaking Caribbean, and data obtained for the second quarter of 2017 point to an annualized drop of 3.2 per cent.

Figure 23

Latin America and the Caribbean (selected country groupings): evolution of domestic private-sector credit in real terms, first quarter of 2013–fourth quarter of 2017



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

54. Following significant fluctuations in a number of the region's currencies in 2016, exchange rate variations were more moderate in 2017. In that year, the largest depreciation was posted by Argentina (10.2 per cent) and the greatest appreciation was that of the Mexican peso (-8.6 per cent).

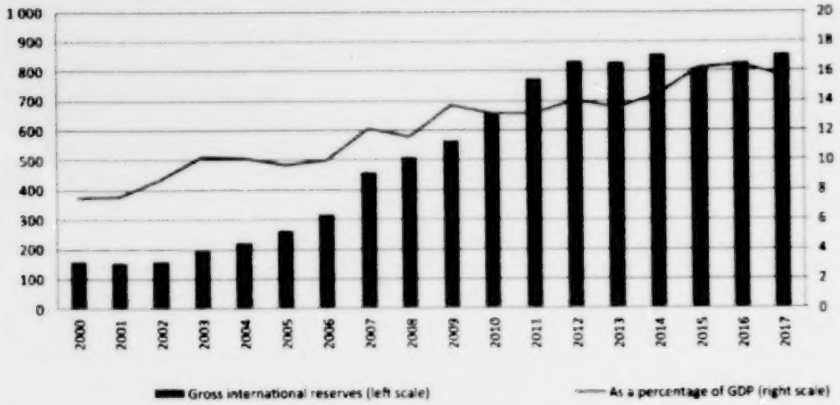
55. Factors such as expectations of recovery in the region's economies, rebounding commodity prices and reduced uncertainties related to the normalization of monetary policy in developed countries (especially those of Europe) allowed the currencies of the region to enjoy greater stability.

56. The real effective extraregional exchange rate also remained relatively stable in 2017 and closed the year with a 0.3 per cent appreciation in real terms for the economies of Latin America and the Caribbean as a whole, contrasting with the depreciation recorded in 2016. This was on account of the appreciation posted in the economies of South America (1.1 per cent); while this result was lower than the 8.1 per cent recorded in 2016, it offset the real-term depreciation posted by the economies of Central America, Mexico and the non-Spanish-speaking Caribbean.

57. In 2017, the international reserves of Latin America and the Caribbean grew by 3.4 per cent compared to the total posted at the end of 2016 (see figure 24). That

increase was equal to an accumulation of US$ 27.87 billion in reserves over the year, some US$ 8.22 billion more than the amount accumulated in 2016. Although reserves rose in 20 economies, the variation seen in the region as a whole during 2017 was essentially on account of the accumulation observed in Argentina (US$ 16.28 billion) and Brazil (US$ 8.96 billion).

Figure 24
Latin America and the Caribbean: international reserves, 2000–2017
(Billions of dollars and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures. Figures for 2018 are projections.

58. In December 2015, the Central Bank of the Argentine Republic adopted a flexible exchange rate regime, consistent with its inflation targeting model and, at the same time, it introduced a policy of currency interventions, buying foreign exchange to strengthen the position of its reserves and to provide leeway for its management of exchange rate policy. In Brazil's case, the performance of its reserve assets and the completion of the buy-backs (repos) made earlier to stabilize the exchange rate were the causes of the increased reserves.

59. As regards the ratio of international reserves to regional GDP, the data recorded at the end of 2017 show a decline from 2016 levels.

G. Outlook for 2018

60. Monetary factors and global growth dynamics will continue to provide a supportive environment for the region's economies in 2018. The global economy is expected to continue to grow at rates close to those recorded in 2017, and emerging economies are poised to outperform developed ones. On the monetary front, liquidity will remain available and international interest rates will remain low. This opens up a promising opportunity for the Latin American and Caribbean countries to expand their economic policy space in a way that will buoy the expansionary phase of the business cycle.

61. While the international situation is not without business, financial and geopolitical risks that pose challenges for the consolidation of global growth over the medium term, in all probability, stronger external demand will spur economic activity in Latin America and the Caribbean. Furthermore, domestic demand will play an important role in accelerating growth, although the pace of growth will differ from

one component of the economy to the next. Thanks to the upswing in gross fixed capital formation, investment will make a greater contribution to the economy than before. Private consumption continues to drive domestic demand. The governments of the region are expected to continue to pursue their fiscal consolidation efforts during 2018, and it is therefore unlikely that fiscal policy will make any significant contribution to GDP growth.

62. Estimates put the GDP growth rate for Latin America and the Caribbean at 2.2 per cent for 2018, which is substantially higher than the rate for 2017 (1.3 per cent) (see table 1). More robust economic growth in Brazil (2.2 per cent) will be one of the factors behind this upturn. In addition, economic activity is expected to strengthen in a number of countries that have been growing at moderate rates up to now, including Chile (3.3 per cent), Colombia (2.6 per cent) and Peru (3.5 per cent). Panama will be the Latin American country with the highest growth rate (5.6 per cent), followed by the Dominican Republic and Nicaragua (5.0 per cent). With the exception of Cuba (1.6 per cent) and the Bolivarian Republic of Venezuela (-8.5 per cent), all the other Latin American economies will expand by between 2 per cent and 4 per cent.

63. At the subregional level, South America is expected to turn in a stronger showing in 2018 (2.0 per cent on average, up from 0.8 per cent in 2017). The economies of Central America, Cuba, the Dominican Republic and Haiti are projected to attain a growth rate of 3.6 per cent, thus outdoing their 2017 rate of 3.3 per cent. The average growth rate for the English- and Dutch-speaking Caribbean is projected at 1.4 per cent for 2018 — above the previous year's 0.1 per cent —, fostered, among other things, by expenditure on reconstruction in the aftermath of Hurricane Irma and Hurricane María in some countries of the subregion.

Table 1
Latin America and the Caribbean: annual growth in gross domestic product (GDP), 2012–2018

(Percentages, on the basis of dollars at constant 2010 prices)

	2012	*2013*	*2014*	*2015*	*2016*	*2017*	*2018[a]*
Argentina	-1.0	2.4	-2.5	2.6	-2.2	2.9	2.5
Bolivia (Plurinational State of)	5.1	6.8	5.5	4.9	4.3	3.9	4.0
Brazil	1.9	3.0	0.5	-3.5	-3.5	0.9	2.2
Chile	5.5	4.0	1.9	2.3	1.6	1.5	3.3
Colombia	4.0	4.9	4.4	3.1	2.0	1.8	2.6
Costa Rica	4.8	2.3	3.5	3.6	4.5	3.9	3.4
Cuba	3.0	2.8	1.0	4.3	-0.9	0.5	1.6
Ecuador	5.6	4.9	4.0	0.2	-1.5	1.0	2.0
El Salvador	1.9	1.8	1.4	2.3	2.4	2.4	2.4
Guatemala	3.0	3.7	4.2	4.1	3.1	3.2	3.3
Haiti	2.9	4.2	2.8	1.2	1.4	1.3	2.0
Honduras	4.1	2.8	3.1	3.6	3.6	3.9	4.1
Mexico	3.6	1.4	2.8	3.3	2.9	2.2	2.3
Nicaragua	6.5	4.9	4.8	4.9	4.7	4.9	5.0
Panama	9.2	6.6	6.1	5.8	4.9	5.3	5.6
Paraguay	-1.2	14.0	4.7	3.0	4.0	4.0	4.0
Peru	6.1	5.9	2.4	3.3	4.0	2.5	3.5
Dominican Republic	2.8	4.7	7.6	7.0	6.6	4.9	5.0

	2012	2013	2014	2015	2016	2017	2018[a]
Uruguay	3.5	4.6	3.2	0.4	1.5	3.0	3.0
Venezuela (Bolivarian Republic of)	5.6	1.3	-3.9	-5.7	-9.7	-9.5	-8.5
Subtotal for Latin America	**2.8**	**2.9**	**1.2**	**-0.2**	**-0.8**	**1.3**	**2.2**
Antigua and Barbuda	3.5	-0.1	5.1	4.1	5.3	4.5	5.8
Bahamas	3.1	-0.6	-1.2	-3.1	0.2	1.2	2.0
Barbados	0.3	0.0	0.0	0.9	2.0	1.5	0.8
Belize	3.7	0.7	4.1	2.9	-0.5	2.5	2.1
Dominica	-1.1	-0.6	4.4	-2.5	2.6	-8.3	-5.0
Grenada	1.2	2.4	7.3	6.4	3.7	3.5	2.8
Guyana	4.8	5.2	3.8	3.2	3.3	2.9	3.5
Jamaica	-0.6	0.5	0.7	1.0	1.4	1.2	1.3
Saint Kitts and Nevis	-0.6	6.2	6.0	4.0	2.2	2.1	4.5
Saint Vincent and the Grenadines	1.4	1.8	1.0	1.8	1.3	0.8	1.9
Saint Lucia	0.2	3.4	-0.2	2.0	1.7	2.8	3.6
Suriname	2.7	2.9	0.3	-2.6	-5.1	-0.7	0.7
Trinidad and Tobago	1.3	1.0	-0.3	1.5	-6.0	-2.3	0.5
Subtotal for the Caribbean	**1.4**	**1.0**	**0.4**	**0.6**	**-1.6**	**0.1**	**1.4**
Latin America and the Caribbean	**2.8**	**2.9**	**1.2**	**-0.2**	**-0.8**	**1.3**	**2.2**
South America (10 countries)	**2.5**	**3.3**	**0.5**	**-1.6**	**-2.3**	**0.8**	**2.0**
Central America, Cuba, Dominican Republic and Haiti (9 countries)	**4.0**	**3.7**	**4.0**	**4.7**	**3.5**	**3.3**	**3.6**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Projections.

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Economic and social developments in the Economic and Social Commission for Western Asia region for the period 2017–2018

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith an overview report on economic and social developments in the Economic and Social Commission for Western Asia region for the period 2017–2018.

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Economic and social developments in the Economic and Social Commission for Western Asia region for the period 2017–2018

[Original: Arabic and English]

Summary

Growth in the Arab region slowed slightly to an estimated 2.3 per cent in 2017 from 2.6 per cent in 2016. This drop was largely driven by subdued growth performance among oil exporters, especially Gulf Cooperation Council (GCC) countries whose growth bottomed out at an estimated 0.9 per cent in 2017. The weak economic activities of the region's oil exporters were largely attributed to hydrocarbon sector-led growth decelerations, in line with a 2017 OPEC agreement to cut oil production. This reduction measure caused a decrease in the Arab region's production by 5.2 per cent compared with 2016, which offset the effect of a favourable oil price movement in 2017.

In contrast, the economies of oil importing countries have expanded given the stronger-than-expected recovery of the global economy, coupled with a gradual strengthening of their domestic demand. Nonetheless, serious geopolitical tensions have remained, exacerbated by numerous ongoing intra-regional diplomatic rifts and their spillover effects. However, despite mixed performances in the external environment and the challenges facing the Arab region, a gradual improvement in the region's economic outlook is anticipated: GDP growth is forecast at 2.9 per cent for 2018 and at 3.1 per cent for 2019. Such projections reflect a series of policy reforms, fiscal adjustments and improvements in the tourism sector, along with an expected reduction in geopolitical tensions in the future.

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I. Global context

1. In 2017, the world economy strengthened, with global GDP growth reaching 3 per cent compared with 2.4 per cent in 2016. As a result of improved investment conditions, world trade rebounded and employment stabilized in the world's major economies. This global growth was primarily driven by developed countries, whose growth contribution accounted for nearly 30 per cent of the world's total growth. Economic recovery in some developing countries was another significant factor contributing to global growth. Such upward dynamics were, however, unequally distributed across countries and regions, which raises questions of sustainability in the long run. In addition to uneven growth trajectories, future prospects are clouded by several uncertainties arising from increasing protectionism, financial sector vulnerability caused by high debt levels, and weak wage growth.

2. Developed countries began driving the global economic upturn in 2017, gaining momentum to push away from long-standing subdued economic activities since the 2008 financial crisis. Their economic growth reached 2.2 per cent in 2017, a significant increase from 1.6 per cent in 2016. A strong investment initiative was identified as the most significant factor, broadly encouraging the resumption of global economic activities. Furthermore, inflation was benign and the unemployment rate dropped significantly across all developed countries, further supporting this economic uptick. The United States of America, in particular, registered steady growth in 2017, underpinned by improved business investment and favourable external trade. The European Union also registered economic recovery, mainly driven by increased household spending and active investment. In addition, the Japanese economy enjoyed growth in domestic demand, coupled with improved labour market conditions.

3. As the expectation of inflation increased with economic recovery, many major developed countries changed their policy stance to one of monetary tightening. The United States Federal Reserve raised interest rates by 25 percentage points on three occasions in 2017, thus doubling interest rates from 0.75 to 1.5 points.[1] Moreover, instead of intervening in policy rates, the European Central Bank decided to reduce the speed of asset purchases, starting from January 2018.[2] The central banks of the United Kingdom and Canada responded to global dynamics by raising policy rates by 25 and 50 percentage points, respectively. Nevertheless, tight monetary policy in those major economies might result in sudden capital flight unless their speedy tightening trend is stabilized.

4. In 2017, developing countries also acted as a driving force for global economic growth: output growth in developing countries stood at 4.3 per cent, up by a 0.5 percentage point from 2016. However, although favourable investment conditions and stable commodity prices have contributed to overall growth, development outcomes have not been spread evenly across countries and regions. On the one hand, the growth of East and South Asia constituted around half of global growth and is expected to expand at a rapid pace. For example, the Chinese economy grew by 6.8 per cent as a result of robust domestic consumption and increased infrastructure investment.[3] In addition, commodity-exporting countries such as Brazil and the Russian Federation registered an increasing growth rate, up by 4.3 and 2 percentage points, respectively. The upward trend in the commodity prices of export material was

[1] https://www.federalreserve.gov/monetarypolicy/openmarket.htm.

[2] http://www.ecb.europa.eu/press/pr/date/2017/html/ecb.mp171026.en.html.

[3] The One Belt One Road Initiative, launched by the Chinese Government in 2013, aims to build and link mainland and maritime roads across three continents (Europe, Asia and Africa) and over 60 countries.

a major step towards such significant growth. Nonetheless, most developing countries have not yet succeeded in diversifying their economic and export structure, thus rendering them vulnerable to the rapid boom and bust cycles of the global commodities market.

5. Although global unemployment slightly increased to 5.6 per cent in 2017 from 5.5 per cent in 2016, the unemployment situation varied across countries and regions in 2017.[4] As a result of an uptick in economic activities, the labour market continued to improve in developed countries, where unemployment fell by a 0.5 percentage point to 5.7 per cent. The unemployment rate in the United States decreased by a 0.5 percentage point to 4.4 per cent in 2017. Similarly, unemployment in Europe fell by a 0.4 percentage point to 5.6 per cent. Moreover, the unemployment rate in Japan dropped to an unprecedented low level of 2.8 per cent, down by a 0.3 percentage point. In contrast, many developing countries experienced some unfavourable changes, largely attributed to labour force growth outweighing employment capacity. Sub-Saharan Africa and Latin America and the Caribbean have suffered the most from persistent unemployment challenges, largely caused by a demographic transition in the labour market.

Table 1
Growth and inflation: world and regional averages, 2015–2019

(Percentage)

	Real GDP growth rate					*Consumer price inflation rate*				
Country subregion	*2015*	*2016*	*2017[a]*	*2018[b]*	*2019[b]*	*2015*	*2016*	*2017[a]*	*2018[b]*	*2019[b]*
Arab region	2.7	2.6	2.3	2.9	3.1	4.9	6.3	7.0	4.4	4.2
World	2.7	2.4	3.0	3.0	3.0	2.1	2.4	2.6	2.8	2.8
Developed countries	2.2	1.6	2.2	2.0	1.9	0.2	0.7	1.5	1.9	2.1
United States	2.9	1.5	2.2	2.1	2.1	0.1	1.3	1.7	2.1	2.1
European Union	2.2	1.9	2.2	2.1	1.9	0.0	0.3	1.6	1.8	2.1
Japan	1.1	1.0	1.7	1.2	1.0	0.8	-0.1	0.3	1.4	1.8
Economies in transition	-2.2	0.4	2.2	2.3	2.4	15.8	7.8	5.3	5.1	4.6
Developing countries	3.9	3.8	4.3	4.6	4.7	4.4	5.2	4.4	4.3	4.2
Africa	3.1	1.7	3.0	3.5	3.7	7.0	11.3	13.0	9.5	8.1
East/South Asia	5.8	6.0	5.9	5.8	5.9	2.6	2.6	2.4	3.1	3.4
Latin America	-0.6	-1.3	1.0	2.0	2.5	7.7	9.3	5.8	4.9	4.7

Sources: Data for the Arab region are calculated by ESCWA based on national statistical sources. Other data and country groupings are from the United Nations Department of Economic and Social Affairs (DESA), *World Economic Situation and Prospects 2018*, January 2018.

[a] DESA estimations as at December 2017 (with the exception of the Arab region, which is an ESCWA estimation).

[b] DESA projections, based in part on Project LINK as at December 2017 (with the exception of the Arab region, which is an ESCWA estimation).

[4] http://www.ilo.org/global/research/global-reports/weso/2018/lang--en/index.htm.

II. Natural resource commodities

A. Oil

6. As employment dynamics in most major economies make positive progress in terms of unemployment volume towards pre-crisis levels, global unemployment is expected to drop back to 5.5 per cent in 2018. Notwithstanding this positive labour market outlook, several challenges remain. World wage growth has weakened, mainly affected by the growing share of vulnerable employment.[5] For instance, workers in vulnerable forms of employment,[6] accounting for 42 per cent of global employment, have limited access to social protection and experience low job security. Young people and women continue to face high unemployment rates. The youth unemployment rate increased by a 0.3 percentage point to 13 per cent in 2017, constituting one-third of the world's total unemployment.

7. In 2017, world demand for oil stood at 97 million barrels per day, an increase of 1.7 per cent from 2016.[7] OPEC forecasts that total oil demand will rise to 98.6 million barrels per day in 2018. Improved demand stems from increased consumption, supported by economic recovery in most developed countries. Furthermore, the drop in crude oil inventories has contributed to an increase in demand. The demand for oil in the United States rose by 1.2 per cent to 20.2 million barrels per day in 2017, while demand in Europe increased by 1.4 per cent to 14.2 million barrels per day. A strong demand for oil was also observed in some major developing countries. China doubled its efforts in petrochemical and transportation sector development, which caused a significant increase in demand. Moreover, Indian demand for oil rose by 1.8 per cent in 2017, a substantial increase from 4.4 million barrels per day in the previous year.

8. The 2017 OPEC agreement to reduce crude oil production extends until the end of 2018.[8] This agreement rebalanced the global oil market, thus increasing oil prices. The reduction was led by Saudi Arabia, which registered the largest oil output cut of nearly 509 thousand barrels per day. Notwithstanding efforts to cut production by the majority of OPEC members, their rebalancing outcomes have been limited because of production dynamics in some exempt countries, including Libya which radically increased its oil production in 2017. The oil production activities of non-OPEC countries were also a considerable factor limiting the agreement's rebalancing effect: non-OPEC supply in 2017 increased by 0.86 million barrels per day to 57.86 million barrels per day. Meanwhile, crude oil production in the United States reached its highest level, despite hurricane-related refinery disruptions during the fourth quarter of 2017.

9. The price of oil rose by $21.64 per barrel from $45.21 in mid-June 2017 to $66.85 per barrel in late-January 2018. This price is the highest since 2016 and can be attributed to a recovery of approximately 52 per cent of the value lost ($86.9) over the period from June 2014 ($109.38) to January 2016 ($22.48). This solid recovery was largely the result of increased transactions in the oil futures market, spurred by strong demand and a shortage of global inventories caused by high demand in China and India; recovering demand dynamics in Europe; stable refining margins; moderate growth in tanker rates; and agreements to reduce crude oil production. Despite such

[5] www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017.

[6] Own-account workers and contributing family workers, based on classifications by the International Labour Organization.

[7] http://www.opec.org/opec_web/en/publications/338.htm.

[8] In May 2017, OPEC and non-OPEC oil producing countries extended their reduction agreement until the first quarter of 2018, followed by a further extension agreement in November 2017 lasting until the end of 2018.

a favourable rebalancing trajectory over the past two years, the recent global supply-demand nexus is expected to remain largely unchanged, although an extension of the production cuts is highly feasible. ESCWA therefore forecasts that the recent upswing trend will soften to around $57.83 per barrel on average in 2018 and $57.97 per barrel in 2019, up nearly $5-6 compared with the average 2017 price.

Table 2
Crude oil price estimation and forecast

(OPEC reference basket, $ per barrel)

				Forecast annual average		
	Minimum	*Maximum*	*Annual average*	*Lower*	*Baseline*	*Higher*
2015	30.74	64.96	49.49			
2016	22.48	53.46	40.76			
2017	42.58	64.47	52.43			
2018				53.20	57.83	62.35
2019				46.10	57.97	68.50

Source: OPEC data for 2015–2017. Available from www.opec.org.
Note: Data for 2018 and 2019 are ESCWA estimates as of March 2018.

10. The Arab region's crude oil production for 2017 is estimated at 24.7 million barrels per day, on average — a drop of 2 per cent from the previous year. At the subregional level,[9] GCC and Mashreq countries produced an estimated 17.3 million and 5.1 million barrels per day, respectively, equivalent to a fall of 5.2 per cent and 3.6 per cent compared with 2016. Meanwhile, Maghreb countries and Arab least developed countries (LDCs), although minimal contributors to the region's production, produce and estimated 2.1 million barrels per day and 144 thousand barrels per day, respectively, up by 34.2 per cent and 9.2 per cent over the same period. All five oil giants in the Arab region (Algeria, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates) have been significantly affected by the OPEC agreement, which has resulted in a reduction in oil production of between 0.2 per cent and 10.6 per cent from the preceding year. In contrast, Libya, which was exempt from the initial production-cut deal, was able to substantially increase crude oil production by nearly 1 million barrels per day in 2017.

11. Total production in the Arab region is, however, forecast to increase moderately in 2018 to 25.5 million barrels per day as a result of rebalancing in the oil market. Reflecting a modest rise in oil prices over the period 2016–2017 by 29 per cent, or $11–12 per barrel, the region's total gross oil export revenues are estimated at $404 billion for 2017, a 22 per cent increase from 2016. Since the price of oil is projected to remain at around the current level, total oil revenues are forecast to continue this upswing trend with a 13.7 per cent increase to $460 billion in 2018. Nevertheless, this figure is still 46.7 per cent lower than the peak in 2012.

[9] ESCWA divides the Arab countries into four subregions: GCC countries (Bahrain Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the Mashreq (Egypt, Iraq, Jordan, Lebanon, the State of Palestine and the Syrian Arab Republic); the Maghreb (Algeria, Libya, Morocco and Tunisia); and least developed countries (the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen).

B. Natural gas

12. Global demand for natural gas is estimated to increase by 29 million tonnes to 293 million tonnes in 2017.[10] This increase is underpinned by continual gas exporting activities to East Asia and Southern Europe. Japan remained the largest importer of natural gas, accounting for nearly one-third of the world's total imports. Partly because of its national environmental development programmes, China became the second largest gas importer in 2017.[11] In addition, Southern Europe imported an additional 10 million tonnes of liquefied natural gas (LNG), owing to increased demand in line with the stronger-than-expected recovery of its economy. Such strong demand dynamics were supported by the rapid growth of LNG production in Australia and the United States. Given the strong supply-demand nexus in 2017, market competition among gas suppliers has intensified as diversification strategies from major gas importers are designed and implemented.

13. At the regional level, many Arab countries occupy key positions in the global natural gas market by holding 46 per cent of the world's natural gas reserves.[12] In 2017, the Arab region maintained its significant production role, coupled with rapidly growing demand in the region. Qatar remained the world's largest LNG exporter in 2017 despite the diplomatic crisis with some neighbouring countries. Moreover, gas exporting from countries such as Algeria, Oman and the United Arab Emirates maintained a competitive level. On the other hand, Egypt suffered from gas shortages because of increased domestic energy demand. Nonetheless, Egypt is expected to reach natural gas self-sufficiency status in the years to come following the start of production in newly discovered gas fields.[13]

III. Regional trends

A. Overview

14. Growth in the Arab region is estimated to have slowed slightly to 2.3 per cent in 2017 from 2.6 per cent the year before, driven by a decline in growth among oil exporters, particularly GCC countries. Subdued economic activities in both GCC and non-GCC oil exporters was largely attributed to hydrocarbon sector-led growth decelerations in line with the OPEC agreement on oil production cuts, which offset the effect of the favourable oil price movement in 2017. In contrast, the economies of oil importing countries expanded following the stronger-than-expected recovery of the global economy, especially in European countries, coupled with the gradual strengthening of their domestic demand. Nonetheless, geopolitical factors and elevated levels of public debt continue to weigh heavy on the Arab region, in general, and on oil importing countries, in particular.

[10] https://www.shell.com/energy-and-innovation/natural-gas/liquefied-natural-gas-lng/lng-outlook.html.

[11] China has implemented its thirteenth Five-Year Plan and Energy Production and Consumption Revolution Strategy 2016-2030, geared towards increasing the share of natural gas in its energy mix from 5.9 per cent in 2015 to 10 per cent by 2020, and to 15 per cent by 2030.

[12] https://www.worldenergy.org/data/resources/resource/gas/.

[13] http://www.petroleum.gov.eg/en/MediaCenter/LocalNews/Pages/mop_16122017_1.aspx.

Table 3
Real GDP growth rate and consumer price inflation rate in the Arab region, 2015–2019

(Percentage)

	Real GDP growth rate					*Consumer price inflation rate*				
Country, subregion	*2015[a]*	*2016[a]*	*2017[b]*	*2018[c]*	*2019[c]*	*2015[a]*	*2016[a]*	*2017[b]*	*2018[c]*	*2019[c]*
Bahrain	2.9	3.0	3.5	2.0	3.3	1.9	2.7	1.4	2.5	3.0
Kuwait	0.6	3.5	1.0	2.1	2.3	3.7	3.5	3.4	3.8	3.4
Oman	4.7	5.4	1.7	3.3	3.0	0.1	1.1	1.7	2.9	2.6
Qatar	3.6	2.2	0.8	2.6	2.2	1.8	2.7	0.8	2.6	3.2
Saudi Arabia	4.1	1.7	-0.7	2.2	2.3	2.2	3.5	-0.3	1.0	1.4
United Arab Emirates	3.8	3.0	3.3	2.3	3.0	4.1	1.6	2.0	2.5	3.5
GCC countries	3.7	2.5	0.9	2.3	2.5	2.6	2.8	0.9	1.9	2.4
Egypt[d]	4.4	4.3	4.2	3.8	4.2	10.4	16.1	30.3	12.2	10.8
Iraq	4.0	6.3	1.8	3.7	3.1	1.4	0.5	0.1	3.0	3.4
Jordan	2.4	2.0	2.0	2.8	2.9	-0.9	-0.8	3.3	2.6	2.3
Lebanon	0.8	1.4	2.0	2.5	2.5	-3.7	-0.8	3.8	2.2	2.3
Palestine	3.4	4.7	3.6	3.8	3.9	1.4	-0.2	0.2	2.0	2.0
Syrian Arab Republic[e]	-8.1	-6.5	-3.9	-2.3	0.4	42.5	46.1	38.4	13.9	10.6
Mashreq	3.2	4.0	2.8	3.3	3.5	7.5	10.7	17.5	8.3	7.5
Algeria	3.7	3.3	2.1	3.2	3.1	4.8	6.4	5.6	3.8	3.2
Libya	-22.0	-5.2	45.9	16.2	12.3	9.8	24.0	27.8	14.0	10.0
Morocco	4.5	1.2	4.2	4.1	4.0	1.6	1.6	0.7	2.8	2.7
Tunisia	1.1	1.2	1.9	3.2	3.3	4.9	3.7	5.3	3.6	3.5
Maghreb	0.7	1.5	7.6	4.9	4.4	4.5	6.7	6.7	4.6	3.9
Comoros	1.0	2.2	2.8	3.0	3.7	1.3	1.8	2.2	0.4	0.8
Djibouti	6.5	6.5	6.8	6.8	6.7	2.7	2.4	3.5	4.0	2.7
Mauritania	0.9	1.7	3.8	5.2	5.2	0.5	1.5	2.7	4.3	5.3
Somalia[f]	2.6	2.6	2.5	3.3	3.9	-2.9	2.0	2.2	0.8	1.3
Sudan	4.3	4.9	4.2	4.1	4.2	17.3	17.6	25.2	10.0	9.5
Yemen	-29.2	-11.1	-7.5	-4.3	0.2	21.4	35.0	22.5	18.0	9.3
Arab LDCs	-5.4	0.1	0.8	1.7	3.1	16.6	21.0	22.2	11.5	8.8
Total Arab region[e]	**2.7**	**2.6**	**2.3**	**2.9**	**3.1**	**4.9**	**6.3**	**7.0**	**4.4**	**4.2**

Source: ESCWA estimates based on national statistical sources.

[a] GDP figures for 2015 and 2016 are from national sources unless otherwise indicated.

[b] March 2018 estimates.

[c] March 2018 forecasts.

[d] Data are for Egypt's fiscal year, which ends in June.

[e] 2015–2017 GDP growth rates in Libya, the Syrian Arab Republic and Yemen are ESCWA estimates.

[f] The GDP growth rate and consumer price inflation rate for Somalia are from www.imf.org/en/Publications/CR/Issues/2017/02/27/Somalia-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44706.

15. A gradual improvement in the regional economic outlook is anticipated: the GDP growth forecast is estimated at 2.9 per cent for 2018 and 3.1 per cent for 2019. Such projections reflect a series of policy reforms, fiscal adjustments and improvements in the tourism sector, along with an expected reduction in geopolitical tensions in the future. It should be noted, however, that these figures are subject to future revision, as official national accounts have been unavailable for Libya, the Syrian Arab Republic and Yemen for some years given that estimating the economic cost of conflict in those countries is difficult.

B. Gulf Cooperation Council countries

16. Overall real GDP growth in GCC countries bottomed out at an estimated 0.9 per cent in 2017 as the OPEC agreement reduced oil output, reflected in a drop in production of 5.2 per cent over the period 2016–2017. This significant reduction in volume would have caused a more severe contraction of the economy without resilient domestic demand, supported by the stabilizing value of financial and real estate assets and a modest recovery of the non-oil sector. Furthermore, external balances slightly improved because of stronger external demand, which eventually caused the recovery of oil export revenues from the lows of 2016.

17. Growth is projected to reach 2.3 per cent in 2018, largely because of a favourable base effect from real growth in 2017. This recovery is expected to be accompanied by mild inflationary pressure, reinforced by the introduction of a unified value-added tax that is likely to fuel consumer inflation in most GCC countries. Major contributions to the recovery include reforms to promote non-oil sector activity such as services and manufacturing for competitive business environments to cushion the dampening effect of the OPEC-led production cuts; significant deficit reduction efforts, supported by continued improvements in fiscal frameworks and institutions (for example, most GCC countries now have an operationalized macro-fiscal department and debt management office in their ministries); and an international capital and equity market generally favourable to most GCC countries. Relaxation of the OPEC reduction measure is anticipated in 2019, which will then likely increase the growth rate to 2.5 per cent, combined with a number of large infrastructure projects such as World Expo 2020.

C. Mashreq countries

18. Growth in Mashreq countries averaged an estimated 2.8 per cent in 2017, down from 4 per cent in 2016. At the country level, progress was uneven across this subregion. In Egypt, industrial production and investment were strong, largely benefitting from the effects of its exchange rate devaluation; however, this positive performance was substantially restrained by a series of fiscal adjustments coupled with a high inflation rate. Economic expansion in Iraq remained subdued because of the OPEC reduction agreement and the fiscal consolidation efforts to cut public investment. The economy of the Syrian Arab Republic improved slightly as the intensity of the conflict eased in 2017, although continued negative growth is expected. Some reconstruction has begun, and private consumption driven by returning Syrian expatriates has also contributed to the recovery of the economy. Jordan and Lebanon have experienced mixed pressures. For instance, while geopolitical tensions continue to negatively impact both economies, stronger mining activities and a pickup in tourism derived moderate growth in Jordan, and territorial consolidation and reconstruction efforts in Syrian Arab Republic boosted economic activities in Lebanon. Nonetheless, stagnant intra-regional trade and low workers' remittances and investments were less favourable aspects in both economies.

19. Average growth for the subregion in 2018 is projected to reach 3.3 per cent. The economy of the Syrian Arab Republic will contract at a softer pace, and the outlook for Iraq will continue to be dominated by geopolitical conflict and oil-producing activities. The economy of the State of Palestine is forecast to slightly expand as various value-added activities, such as construction, agriculture and manufacturing, are anticipated in the Gaza Strip. However, potential disruptions from renewed political tensions related to the recognition by the United States of Jerusalem as the capital of Israel might cloud such positive prospects. Egypt, Jordan and Lebanon are forecasted post-moderate economic outcomes, associated with improvements in balance-of-payment situations, cross-border remittances, capital inflows, and tourist arrivals from European countries towards the end of 2018.

D. Maghreb countries

20. Economic growth in Maghreb countries averaged 7.6 per cent in 2017, a substantial increase from the 1.5 per cent recorded in 2016. The subregion's growth is heavily influenced by Libya, whose growth rate increased by an estimated 51 percentage points from minus 5.2 per cent to 45.9 per cent over the period 2016–2017. The expansion of the Libyan economy was driven by a substantial increase in its oil output, roughly triple its production from the previous year. Such a significant increase was the result of the country's exemption from the initial OPEC production-cut deal. In Morocco, a strong rebound in agricultural production (40 per cent of the population relies on agriculture) from severe droughts in the previous year was observed, in addition to accelerated activities in the services, manufacturing and mining sectors. Similarly, Tunisia experienced gradual recoveries in its agricultural and manufacturing sectors, further supported by improved trade activities and a pickup in tourist arrivals (associated with stronger growth in Europe). In contrast, growth in Algeria slowed in 2017 as a consequence of spending cuts, particularly in public investment, and subdued hydrocarbon sector and non-oil activities.

21. A growth rate of 4.9 per cent is expected for the subregion in 2018. This estimated figure largely depends on the performance of the Libyan economy, which is forecast to maintain a positive growth rate of 16.2 per cent following a ramp-up in oil production. The other three Maghreb countries are also projected to improve or maintain their growth momentum in 2018. In Algeria, a more expansionary fiscal stance than in 2017 will act as a driver of growth, albeit only in the short term. In Morocco, external environments such as capital inflows, further recovery in the tourism sector and the favourable price of phosphates, are expected in the future. Similar expectations apply to Tunisia in terms of external performance. Morocco and Tunisia will benefit from the Group of 20 Compact with Africa initiative launched in March 2017, aimed at boosting private investment and improving infrastructure.

E. Arab least developed countries

22. The Arab LDCs experienced an average economic expansion of 0.8 per cent in 2017. This figure is largely the result of continued economic contraction in Yemen, associated with the loss of revenues from oil and natural gas exports and exacerbated by persistent hyperinflation, in the light of ongoing armed violence and humanitarian crises. Djibouti and Mauritania managed their current account deficit, reflecting slightly higher oil prices and the continued import of capital goods. The growth of those two economies was pushed by port infrastructure projects in Djibouti, and large mining and infrastructure investments in Mauritania. The economy of Somalia continued its slow recovery: the severe drought over the period 2016–2017 devastated its pastoral livestock industry, in which around 60 per cent of the country's working

population are employed. Growth remained stable in the Comoros mainly owing to increased remittances and infrastructure investment that support private sector activities. In contrast, the Sudan suffered from prolonged hyperinflationary pressures, combined with the continued devaluation of its currency, which could have a negative knock-on effect on consumption and investment in the private sector.

23. In 2018, the real GDP of the Arab LDCs is expected to average 1.7 per cent. With no improvement in the security situation in sight and agriculture badly hit by fighting, Yemen is unlikely to resume oil and gas exports and the economy will continue to contract. Supported by positive spillovers (tourist arrivals and remittances) from stronger global economies, growth prospects in Djibouti and Mauritania appear strong. Furthermore, as commodity prices are expected to increase slightly, Mauritania (iron ore and gold) and the Sudan (gold) will benefit, based on improved terms of trade. Somalia will experience relatively high growth during an upcoming phase of infrastructure reconstruction projects. Economic growth in the Sudan will be steady as stronger private investment and trade are anticipated, reflecting the lifting of economic sanctions by the United States in October 2017. These positive prospects are partly the result of a number of global-level trade facilitation initiatives for LDCs, including the 2013 Bali Package and the duty-free and quota-free market access initiative under the World Trade Organization. Nonetheless, debt vulnerabilities, such as the build-up of arrears in Somalia and the Sudan, and large infrastructure projects funded by external borrowing in Djibouti and Mauritania, raise questions about their sustainability.

F. Prices and inflation

24. The average annual consumer price inflation for 2017 in the Arab region is estimated at 7 per cent, up from 6.3 per cent in 2016. However, this figure might not properly reflect regional price dynamics as inflation trends varied between subregions, depending on country-specific factors. Inflationary pressures in GCC countries generally appeared weak, except in Saudi Arabia which recorded deflation for the first time in over a decade largely driven by food and transport components of inflation. Inflation in conflict-affected countries, including Libya, the Syrian Arab Republic and Yemen, continued above 20 per cent (hyperinflation), but the Syrian Arab Republic experienced a drop in its inflation rate from 46.1 per cent in 2016 to 38.4 per cent in 2017 largely due to the stabilizing value of the Syrian pound. More diversified dynamics can be observed in Mashreq countries. Inflation rates in Jordan and Lebanon rose sharply in 2017 after deflation in 2016, while conflict-related inflationary pressures in Iraq were well contained. A spike in inflation was observed in Egypt, increasing from 16.1 per cent to 30.3 per cent over the period 2016–2017. This strong inflationary pressure reflects the effects of pass-through of the exchange rate and import prices to domestic inflation, coupled with price increases caused by fuel subsidy cuts and a value-added tax.

25. These inflationary pressures in the region are expected to ease towards the end of 2018. Such an outlook will be largely driven by the assumption that a number of single-occasion inflationary factors (such as a one-time effect from an energy subsidy cut) will fade over time. Nonetheless, there will be several upward inflationary pressures for the region. In particular, the recent implementation of a unified GCC-wide value-added tax is expected to produce mild inflationary pressure, which will have knock-on effects on household spending power. Against a backdrop of heterogeneous factors affecting the price structure across countries, it is forecast that the consumer price inflation rate for the region will average 4.4 per cent in 2018 and will remain around the same level the following year.

G. Exchange rates

26. The exchange-rate regimes of currencies pegged to the United States dollar (or special drawing rights in Libya, or Euro in the Comoros) continued to dominate in the Arab region, especially in GCC countries whose hydrocarbon economies are priced in United States dollars. Adopting more flexible forms of exchange-rate regimes (or independent floating) is another practice, implemented in Jordan, Morocco, and Tunisia. In 2017, regardless of the exchange-rate regime, ongoing fiscal challenges pushed several Arab countries to initiate reforms (or consider changes) to their regimes to face pressures on their economies, control inflation and reduce a severe balance of payment. For example, a free-floating of the Egyptian pound was implemented in November 2016, and a flexible exchange-rate system was introduced in Morocco in January 2018.

27. In Egypt, reform enabled the banking system to manage the dollar liquidity, which led to the exchange rate in the fourth quarter of 2017 to come close to its fair value after the initial substantial fall of the Egyptian pound. Furthermore, the Egyptian pound is forecast to strengthen in 2018, reflecting an increase in natural gas output once the Zohr gasfield comes on stream. The currencies of Algeria and Mauritania resumed moderate depreciation in 2017 and are expected to further decrease in the years to come, reflecting a severe current-account deficit that will exert downward pressure on both currencies. Similarly, Tunisia is expected to experience currency depreciation because of an agreement made with the International Monetary Fund on the limited role of the country's central bank in defending the currency. In February 2018, the Central Bank of Sudan devalued the pegged exchange rate of the Sudanese pound, which is expected to devalue further in the near future; the Sudan will be forced to let the currency float towards the end of 2018. Discrepancies between the official exchange rate and the parallel market rate were partly managed in some countries. For instance, the Syrian pound began to strengthen in 2017 on the back of higher inflows of remittances, which facilitated progress in narrowing such differentials. In Yemen, the central bank decided to float the currency in August 2017, which resulted in a sharp depreciation. Political instability in Iraq added to the persistent gap between the market and the official exchange rates.

H. Social dynamics and employment

28. Labour market dynamics in the Arab region remain challenging. The female labour force participation rate in 2017 was estimated at 21 per cent compared with a world average of 48.6 per cent, and with the region's male participation rate of 74 per cent.[14] Unemployment in the region, especially among young people, poses an obstacle for inclusive growth. The region has the highest youth unemployment rate: 30.6 per cent in 2016, according to the International Labour Organization, compared with a global average of 13.1 per cent. The region's challenges concerning fiscal consolidation, lower oil production and regional conflicts affecting growth performance complicate the resolution of unemployment challenges and overall socioeconomic hardships. The ongoing Syrian crisis continues to impact neighbouring countries, such as Jordan and Lebanon, by increasing labour supply, raising market demand, and affecting the quality of and access to public services.

29. Most GCC countries have recently strengthened their labour nationalisation policies to recover the deficit caused by recent tight monetary policy and a slowdown

[14] https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS.

in growth owing to a slump in oil prices that started in 2014.[15] This step is expected to have a positive impact on unemployment for nationals, while also discouraging the region's immigrant job seekers, particularly those from Mashreq and Maghreb countries. For example, in Saudi Arabia, the expansion of a Saudisation policy in the private sector aims to increase employment rates for Saudi nationals, especially women. In the last quarter of 2017, the ratio of Saudi employed non-nationals reached around 78 per cent compared with 22 per cent for nationals.[16] The Saudisation plan also takes into consideration factors such as salary averages, the percentage of female employees and employment time. In addition, the policy imposes increased taxes on companies employing foreign workers and taxes on family members of foreign workers.

30. According to the Global Gender Gap Report 2017, the Arab region continues to rank last globally despite closing its gender gap by over 60 per cent. Tunisia was the top performer, ranking 117 out of 142 countries, followed by the United Arab Emirate at 120. Significant progress has been made in the sub-indexes of 'political empowerment' and 'educational attainment'.[17] Towards the end of 2017, the Arab region had a women's representation rate of 18.3 per cent in the lower or single house and 12.6 per cent in the upper house or senate, with Algeria taking the lead with 25.8 per cent of women parliamentarians owing to its quota system.[18]

IV. Policy developments

31. In general, there was limited policy space for Arab Governments to manoeuvre when faced with challenges in their external environment and the 2014 drop in oil prices. Almost all Arab countries continued to engage in a series of fiscal consolidation plans in 2017. These included various cuts in costly energy subsidies and several other elements of capital spending. Although several countries have managed their fiscal challenges well by reducing their deficits, they will continue their reform efforts in the coming years to strengthen their revenue base and reduce outstanding public debt. A unified value-added tax of 5 per cent has been introduced in GCC countries effective January 2018; all GCC countries are expected to fully implement it by the end of 2018. Regardless of the differences between oil exporter and oil importer countries, such fiscal consolidation efforts will continue, supported by a strengthening of institutional aspects to improve the transparency, accountability and sustainability of fiscal frameworks.

32. Under the currency exchange policies pegged to the United States dollar in the majority of Arab economies, central banks have increased their policy rates in tandem with the ongoing cycle of United States interest rate hikes by a 0.25 percentage point in March, June and December 2017. The Saudi Arabian Monetary Authority has maintained its policy lending rate at 2 per cent, while increasing its policy deposit rate three times by a 0.25 percentage point since 2017. The Central Bank of Jordan revised its policy interest rates four times: in February, March, June and December 2017. Unsurprisingly, other countries, including Kuwait, Oman, Tunisia and the United Arab Emirates, responded to United States rate hikes by increasing their policy rates several times throughout 2017.

33. Such United States normalization of monetary policy associated with fast United States dollar appreciation has raised the cost of international financing for the region, with many Arab countries using debt issuance for deficit financing purposes.

[15] http://www.ilo.org/beirut/media-centre/news/WCMS_514537/lang--en/index.htm.

[16] https://www.stats.gov.sa/en/352.

[17] http://www3.weforum.org/docs/WEF_GGGR_2017.pdf.

[18] http://www.ipu.org/wmn-e/classif.htm.

Moreover, some countries, particularly GCC countries, have made efforts to lessen their liquidity pressures and enhance their ability to supply credit to the private sector. This tightening monetary stance is expected to continue, although some countries (such as Egypt, Jordan, Morocco and Tunisia) are considering adopting more flexible forms of exchange-rate regimes, and restructuring the domestic capital market to be a priority policy focus.

V. Prospects

34. The Arab region will continue to manage uncertainties, to varying degrees between subregions, towards an inclusive and sustainable growth trajectory. Geopolitical tensions will remain, exacerbated by a number of ongoing intra-regional diplomatic rifts. Such factors will further amplify persistent challenges in fragile economies, including by worsening refugee crises, conflicts and political instability; harming investor confidence; slowing private sector development; and clouding growth prospects. Furthermore, the unsatisfactory level of oil price recovery, coupled with a rapid tightening of global financial conditions, will complicate the growth equation to balance between fiscal consolidation, private sector development, diversification and structural transformation. Notwithstanding the daunting challenges ahead for policymakers in the Arab region, most countries are now implementing their own ambitious national development strategies. The regional outlook therefore hinges upon their capacity in minimizing those uncertainties while maximizing their transformative potential in view of the recent global recovery and of infrastructure development initiatives, such as the One Belt One Road Initiative and the Group of 20 Compact with Africa.